

***IN THE MATTER OF THE APPLICATION FOR  
CHARTER TO OPERATE STATE FINANCIAL  
INSTITUT***

***BANK BOARD HEARING***

*10/06/2020*

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***Meadors Court Reporting***  
*4025 Automation Way Unit D-2*  
*Fort Collins, Colorado 80525*  
*970-482-1506*

HEARING BEFORE THE STATE BANKING BOARD  
STATE OF WYOMING  
DEPARTMENT OF AUDIT  
DIVISION OF BANKING

Held on Tuesday, October 6, 2020  
8:30 a.m. - 3:26 p.m.

(Executive session proceedings in separate transcript.)

at

Herschler Auditorium  
State Capitol Building  
Cheyenne, Wyoming

In the matter of:

Application for Bank Charter  
Avanti Financial Group, Inc.

Board Members Present:

Peter Lawton, Board Chair, Jackson  
Joshua Sorensen, Director, Rock Springs  
Copper France, Director, Rawlins  
Greg Dixson, Director, Casper  
Brittanie Sharp, Director, Douglas  
Bob Grady, Director, Jackson (by videoconference)  
Rod Jenson, Director, Afton  
Fred Rife, Ex Officio Member, Cheyenne

Staff Present:

J.C. Demers, Hearing Examiner  
Sean Towles, Assistant Attorney General  
Attorney for the Board  
Devin Kenney, Assistant Attorney General  
Division of Banking  
Albert Forkner, Commissioner, Division of Banking  
Marie Castleberry, Secretary for State Banking  
Board

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1 CHAIRMAN LAWTON: Good morning. I'm going to call the  
2 meeting to order.

3 My name is Peter Lawton. I'm the Chairman of  
4 the Board. I'd like to welcome everybody today.

5 We have some formalities I'm going to get  
6 through here quickly, and we'll start with the  
application.

7 The Wyoming State Banking Board is convening  
8 here today to hear from applicants for Avanti Bank,  
9 Inc., d/b/a Avanti Bank and Trust, regarding the  
10 special purpose of depository institution bank charter  
11 application.

12 Marie Castleberry will call the roll of the  
13 Banking Board members.

14 MS. CASTLEBERRY: Chairman Peter Lawton.

15 CHAIRMAN LAWTON: Present.

16 MS. CASTLEBERRY: Joshua Sorensen.

17 MR. SORENSEN: Present.

18 MS. CASTLEBERRY: Copper France.

19 MR. FRANCE: Present.

20 MS. CASTLEBERRY: Greg Dixson.

21 MR. DIXSON: Present.

22 MS. CASTLEBERRY: Brittanie Sharp.

23 MS. SHARP: Present.

24 MS. CASTLEBERRY: Robert Grady.

25 (No response.)

1 MS. CASTLEBERRY: Rod Jenson.

2 MR. JENSON: Present.

3 MS. CASTLEBERRY: And Fred Rife.

4 MR. RIFE: Present.

5 CHAIRMAN LAWTON: Thank you. I want to  
6 remind the Board that with all charter applications,  
7 the information provided to you contains a significant  
8 amount of confidential information. Any specific  
9 questions relating to confidential information, the  
10 Board will need to resolve itself into executive  
11 session.

12 Per Wyoming Statute 15-12-115, the Board  
13 shall render decisions on the charter application based  
14 solely on seven criteria. The Board will reconvene at  
15 a later date to rule on charter applications.

16 This meeting is being streamed live. So you  
17 want to make sure that the microphones are close to you  
18 and on. We do have a court reporter here, so please  
19 make sure to speak clearly and not too fast so that he  
20 can follow along.

21 Unless there are any other questions from the  
22 Board members at this time, I will turn the meeting  
23 over to the Hearing Examiner from the Office of  
24 Administrative Hearings.

25 MR. DEMERS: Good morning. I'm J.C. Demers

1 from the Office of Administrative Hearings. I will be  
2 conducting the hearing this morning.

3 The parties have prepared a joint prehearing  
4 stipulation, which I will be using as a guide during  
5 the presentation of the case.

6 And currently, the applicant has submitted  
7 Exhibits 1 through 4, and the parties have stipulated  
8 that those will be admitted into evidence, so they're  
9 hereby admitted.

10 The State, the Wyoming Division of Banking,  
11 has offered Exhibit A, and the parties have also  
12 stipulated that that will be accepted into evidence,  
13 and it is hereby accepted.

14 The -- I guess, Mr. Dyekman, I would start  
15 with you and ask you to please identify yourself, as  
16 well as Mr. Thompson.

17 MR DYEKMAN: Thank you, Mr. Demers.

18 I'm Greg Dyekman of Long Reimer Winegar here  
19 in Cheyenne. I am local counsel for Avanti, and I'm  
20 joined at counsel table by Chuck Thompson, who is the  
21 chief legal officer for Avanti.

22 I'll be asking most of the questions today,  
23 and Mr. Thompson will be testifying later.

24 CHAIRMAN LAWTON: Will Mr. Thompson be  
25 presenting in this case?

1                   THE WITNESS: Only his own testimony. He may  
2 pop up if there's a confidentiality request.

3                   MR. DEMERS: And we've agreed in the  
4 prehearing that that would be fine. Mr. Thompson is  
5 appearing in association with you this morning?

6                   MR. DYEKMAN: He is.

7                   MR. DEMERS: And acting as necessary.

8                   MR. DYEKMAN: That's correct. Thank you.

9                   MR. DEMERS: Mr. Kenney, are you appearing  
10 for the Division by yourself?

11                  MR. KENNEY: Yes. Devin Kenney, hearing --  
12 from the Attorney General's Office.

13                  MR. DEMERS: And then, I guess, if we could,  
14 starting with Mr. Rife, we'll just go down the table  
15 for introductions.

16                  MR. RIFE: Good morning. I'm Fred Rife. I'm  
17 Director of the Wyoming Department of Audit.

18                  MR. DIXSON: Good morning. Greg Dixson with  
19 Hilltop National Bank of Casper, Wyoming, Board member.

20                  MR. JENSON: Good morning. Rod Jenson. I'm  
21 a new Board member. I'm with Bank of Star Valley in  
22 Afton, Wyoming. The new Board member.

23                  MR. FRANCE: Copper France, President, Bank  
24 of Commerce in Rawlins, and Board member.

25                  CHAIRMAN: Pete Lawton, Chairman, Bank of

1 Jackson Hole. And Board member.

2 MS. SHARP: Brittanie Sharp, bank -- Converse  
3 County Banking in Douglas, Board member.

4 THE WITNESS: Josh Sorensen. I'm a Board  
5 member and non-banker.

6 MR. TOWLES: Sean Towles from the Attorney  
7 General's Office. I'm advisory counsel for the Board.

8 MR. DEMERS: And Mr. Dyekman, my  
9 understanding from speaking to your earlier is, you're  
10 going to waive your opening statement and generally  
11 present Avanti's position through the testimony of  
12 Ms. Long; is that correct?

13 MR. DYEKMAN: That's correct.

14 CHAIRMAN LAWTON: And Mr. Kenney, did you  
15 desire to make an opening statement?

16 MR. KENNEY: No, I do not. Thank you.

17 MR. DEMERS: Thank you.

18 With that, please proceed.

19 MR. DYEKMAN: Thank you very much. I'd call  
20 my first witness, Caitlin Long.

21 Please state your full name and your position  
22 with Avanti.

23 MS. LONG: Caitlin Long. Shall I swear in?

24 MR. DEMERS: That's my bad. Thanks.

25 CAITLIN LONG,

1 Having been first duly sworn, testified as follows:

2 MS. LONG: Good morning, Mr. Chairman and  
3 members of the Board. I'll start with a brief opening  
4 statement and then move on to our testimony, although  
5 the opening statement is formally part of my testimony.

6 We're here to do something awesome for  
7 Wyoming today, which is to consider another applicant  
8 for a special purpose depository institution, or SPDI  
9 bank.

10 Avanti is a word that means "forward" or  
11 "ahead" in multiple languages. It stems from a Latin  
12 root, abante, a-b-a-n-t-e, and Wyoming is ahead as a  
13 state.

14 We are building a niche in the financial  
15 industry here. So far, we're building for what South  
16 Dakota and Utah have. We saw Australia loan companies.  
17 South Dakota has the credit card bank. And Wyoming  
18 will hopefully be home to the digital assets industry  
19 niche within the broader scope of financial services.

20 Wyoming has a proud history of leading,  
21 obviously for having invented the limited liability  
22 company in 1977 and also being the first state to grant  
23 women the right to vote 150 years ago.

24 Its whole initiative has always been about  
25 attracting jobs outside capital and revenue to the

1 state of Wyoming, as well as elevating the prestige of  
2 the University of Wyoming, and it's happening. Kraken  
3 is obviously the most visible example of it, but I know  
4 of some other big things that are happening outside of  
5 the banking industry, some of which will never be  
6 announced.

7 One thing we can point to is Secretary of  
8 State Ed Buchanan's testimony at the Blockchain Select  
9 Committee last week, that the number of new business  
10 entities registered in Wyoming is up 75 percent here  
11 today. There's been a huge spike.

12 And there's also been a spike in the  
13 University of Wyoming's event. We just completed the  
14 first part of Hackathon, and attendance was up 11 times  
15 over last year. 4400 -- nearly 4400 attendees  
16 participated in the third part of the Hackathon as well  
17 as -- the Hackathon competition is a software  
18 competition, as well as attended the conference.

19 And this was the first time that the law  
20 school put on a conference about Wyoming blockchain  
21 laws. 4400 participants attended, all of whom have  
22 come from 97 countries.

23 We're really proud of what's happened at the  
24 university and how much they have embraced what we're  
25 doing in this technology area. That event has helped

1 raise, in its first three years, well over a million  
2 dollars for the university.

3                   And I co-founded and remain chairman of that  
4 event, and I'm really proud of what the university has  
5 done to run with it, which is, they have now founded a  
6 blockchain program at the university, one of only 12  
7 universities in the United States to do that, joining  
8 MIT, Stanford, Cornell, Yale, and seven other  
9 prestigious universities. So --

10                  MR. GRADY: Ms. Long?

11                  THE WITNESS: Yes.

12                  MR. GRADY: Mr. Chairman, I'm sorry to  
13 interrupt Ms. Long. I just wanted the record to show,  
14 it's Bob Grady. I was holding on the Google lead line  
15 that was sent as our link for this, so I was waiting  
16 since 8:25. And I just wanted the record to show that  
17 I've joined the meeting and been virtually present here  
18 since 8:30. So thank you, and I look forward to the  
19 presentation by Avanti and Ms. Long.

20                  MR. DEMERS: Thank you, and Ms. Long, I'd ask  
21 if you could just slow down a little bit. I'm watching  
22 the court reporter --

23                  THE WITNESS: Okay. So --

24                  MR. DEMERS: Thank you.

25                  I'll watch that. Thank you. Yes, thank you,

1 Mr. Chairman.

2 We have joined MIT, Stanford, Cornell, Yale,  
3 and seven other prestigious universities.

4 So the seed is planted by the blockchain  
5 efforts here in Wyoming, which began in 2018 and are  
6 growing into tangible results, thanks to the dozens of  
7 people involved, especially the Wyoming legislators,  
8 Governor Mead, and Governor Gordon, who realized the  
9 upside potential for all of this far exceeded the  
10 downside risk.

11 Kraken, of course, kicked off the banking  
12 aspect of this initiative in a very big way, thanks in  
13 no small part to all of you. I'm very proud of  
14 Kraken's success and helped recruit them to Wyoming  
15 over the last couple of years.

16 Let's set the stage. Avanti is very  
17 different than Kraken. Kraken is a consumer-focused  
18 company and a digital asset exchange, primarily,  
19 whereas Avanti is primarily an institutional-focused  
20 company, and we will provide -- be providing services  
21 around those assets, but we will not be an exchange.

22 Both Kraken and Avanti share some important  
23 characteristics, though. We are both committed to  
24 blockchain technology and doing right by the state of  
25 Wyoming, who gave us this opportunity.

So we look forward to presenting our testimony, and thank you.

## EXAMINATION

BY MR. DYEKMAN:

Q Could you please describe the Avanti work integration.

A Yes. Avanti is a depository institution that also provides trust services around digital assets and offers Avit, for proprietary new payment products.

To be clear, all digital assets that Avanti handles will be through the trust function of the bank, not on the depository balance sheet. Our target customers are institutions and consumers with a very high minimum balance.

We will offer four product lines. On-line banking, trust digital assets, the Avit products, and prime services for digital assets.

At this juncture, it's important to pause and note that the Avit product is a proprietary product. Nothing like it exists in the market currently. And a patent is pending for it.

We've spent a lot of legal fees on that product, and we respectfully request that the -- that any question you have pertaining to how it works will be deferred to me in executive session, as details

1 about Avit are confidential trade secrets. Thank you.

2 Avanti's team consists of 13 full-time  
3 employees. Team members. Plus six advisers, of which  
4 two of the advisors are working for us part-time. Four  
5 of the team already work in Cheyenne, and two are in  
6 the process of moving here. We project to have  
7 approximately 25 employees within the next 18 months of  
8 which approximately 10 will be based here in Cheyenne,  
9 including three of our five executives.

10 Avanti's revenue model is fee-based, because,  
11 of course, as you know we are a nonlending charter.  
12 Avanti will be almost entirely an online bank. We will  
13 have an office in Cheyenne, in order to meet that  
14 requirement, as my colleague, Britney Reddy, will  
15 describe to you in her statement.

16 Our executive team consists of five  
17 executives who are highly experienced in regulating  
18 financial services, and all are A players, in my  
19 opinion. All -- I have worked with all of them  
20 previously except for Britney, who I got to know here  
21 in the Cheyenne community. Most of you know her, and  
22 you don't need me to tell you she's a star.

23 Bryan Bishop is Avanti's chief technology  
24 officer, and you will hear from all of the executives  
25 here today. Bryan is also a fellow director on the

1 Board of Directors.

2 We jointly worked together to provide a  
3 comment letter on best practices for digital asset  
4 custody through the Securities and Exchange Commission  
5 in 2018, and that's how I got to know Bryan.

6 He has the distinction of not only being a  
7 contributor to bitcoin open source code, but he also  
8 received the original email from Satoshi Nakamoto, the  
9 bitcoin's creator, in 2009.

10 Bryan was previously the lead blockchain  
11 engineer at LedgerX, which is the first bitcoin  
12 derivative exchange that was licensed by the  
13 Commodities Futures Trading Commission, or CFTC.

14 Britney Reddy is our chief financial officer  
15 and chief banking officer. She has held every senior  
16 position in Wyoming community banks during her nearly  
17 20-year career in banking in Wyoming. She has also  
18 negotiated and implemented core banking software  
19 systems multiple times in her career.

20 As Avanti's most experienced executive in  
21 traditional banking, she works very closely with all of  
22 the other executives and has been instrumental in  
23 melding a technology-forward company to banking  
24 regulations and practical realities. And she has come  
25 up to speed very quickly on digital assets.

1                   Zev Shimko is our chief operating officer.  
2                   Zev and I worked together at Morgan Stanley while he  
3                   was beginning his career, and he was literally a star  
4                   fellow. That's the name of Morgan Stanley's programs  
5                   for its top-rated junior employees across all of the  
6                   company.

7                   We covered corporate treasurers together at  
8                   Morgan Stanley. And a few years ago, we both left Wall  
9                   Street for startup individual asset industry. But we  
10                  stayed in touch.

11                  Zev is an expert on the market structure of  
12                  digital assets, especially trading dynamics, and he  
13                  will walk you through Avanti's proposed products as  
14                  well as the product-to-market fit.

15                  And lastly, Chuck Thompson to my left, our  
16                  chief compliance officer and chief legal officer.  
17                  Chuck is also an alumnus of LedgerX, where he worked  
18                  with Bryan, as well as an alumnus at Morgan Stanley,  
19                  where we did not cross paths but worked with a number  
20                  of the same people at different times.

21                  Chuck and I first met at a conference for  
22                  asset-backed securities in 2017, and we immediately  
23                  found common ground on the legal issues facing the  
24                  digital asset industry.

25                  At LedgerX, Chuck built the Bank Secrecy Act

1 and anti-money-laundering compliance program, and I  
2 knew that that experience, as well as his deep  
3 securities experience at Morgan Stanley, as well as  
4 many years with two of New York's top law firms, would  
5 be invaluable to Avanti.

6 Next we turn to our capital raise. We're a  
7 de novo applicant, and our strategy was initially to  
8 raise the statutorily required minimum before we clear  
9 regulatory hurdles and to wait to do the big capital  
10 raise required in order to be open for business until  
11 after clearing as many of those hurdles as possible.

12 We note that many de novo banks have recently  
13 been funded in the United States. The reason de novo  
14 banks are doing it this way and sequencing their  
15 capital raising in such a careful manner is to reduce  
16 the risk to investors that if the de novo applicant  
17 does not receive its charter.

18 If Avanti does not obtain our charter, we  
19 will be unable to operate and will not open. So the  
20 roadmap is to raise the statutory minimum plus some  
21 working capital up-front, which we already did, and  
22 then execute the bigger capital raise after the  
23 regulatory risks have been significantly reduced.

24 And we have worked extensively with the  
25 Wyoming Division of Banking on this capital plan. And

1 Brittany and Zev will be discussing that with you  
2 during their testimony.

3 Avanti's mission is to build a compliance  
4 bridge between the legacy and the decentralized digital  
5 financial world and to expand access to the open  
6 financial system based on direct ownership of assets in  
7 a way that is more stable, secure, and private than the  
8 legacy system.

9 Our motto is "Both security and compliance  
10 first." We are committed to rigorous compliance and  
11 security in everything we do, and our employees are  
12 trained on this mission from the moment they start  
13 working here and again during their reviews.

14 Lastly, let me close this session by thanking  
15 the two Wyoming banks who helped Avanti get started.  
16 We are not mentioning their names in today's hearing  
17 testimony. They know who they are.

18 Avanti faced trouble getting a bank account  
19 and getting off the ground, which is very common in the  
20 digital asset industry. And I want to especially  
21 thanked the banks who helped us because we attracted  
22 outside capital from outside of Wyoming and wanted to  
23 keep it inside Wyoming instead of sending it right back  
24 out to one of the out-of-state banks that service this  
25 industry. And thanks to the local folks, we were able

1 to do that.

2 Q Could you please explain to the Board your  
3 qualifications and background.

4 A Yes. Thank you.

5 I bleed brown and gold. I was born and  
6 raised here in Wyoming, in Laramie. My father was a  
7 U-Dub professor for 40 years in electrical engineering,  
8 and my mother was a schoolteacher, first in Lander and  
9 Riverton, and then later in rural Rock River,  
10 population 252.

11 I am a product of Wyoming's public schools.  
12 Graduated from Laramie High School in 1987, from the  
13 University of Wyoming in 1990, and then received a law  
14 degree and master of public policy from Harvard in  
15 1994.

16 By then, I owed more in student loans than my  
17 parents' house in Laramie was worth, and I wanted my  
18 parents out from under that obligation as fast as  
19 possible, so I took a job on Wall Street. Although I  
20 never practiced law, I am a member of the New York Bar  
21 and remain so today.

22 I ended up staying on Wall Street for 22  
23 years, from 1994 to 2016, and was most recently head of  
24 Morgan Stanley's pension solutions group and corporate  
25 strategies group in New York.

1                   Here's the chronology. I cut my teeth in the  
2 financial institutions group at Salomon Brothers,  
3 working on bank mergers for a few years, and then  
4 switched to equity research and joined Credit Suisse in  
5 1997.

6                   By 1999, I was the lead equity research  
7 analyst for the initial public offerings of insurance  
8 companies, MetLife and Manulife of Canada. MetLife at  
9 the time was the largest initial public offering ever  
10 done in the United States. And I also worked on a wave  
11 of many similar complex insurance company conversions,  
12 from mutual ownership by their members to publicly  
13 traded ownership by shareholders. During that time, I  
14 was promoted early to managing director, which is the  
15 equivalent of partner.

16                   In 2002, the then-chief executive officer at  
17 Credit Suisse Group, John Mack, asked me to move to  
18 Zurich to help restructure Credit Suisse's troubled  
19 insurance subsidiary in Europe. The insurance  
20 subsidiary's balance sheet needed to be massively  
21 de-risked, its interest rate mismatch closed, and the  
22 business ready for sale.

23                   After spending nearly a year in Zurich,  
24 working as a direct report to both John Mack and the  
25 co-chief executive officers at Credit Suisse, Ossi

1 Grubel, I returned to New York and, between 2003 and  
2 2016, started or co-started three new businesses inside  
3 the big banks, two at Credit Suisse and one at Morgan  
4 Stanley. These businesses were life insurance premium  
5 financed, variable annuity reinsurance, and pension  
6 solutions.

7 And here is some important context about my  
8 experience with these three startups. Each of these  
9 businesses was established after completing a long and  
10 intricate new business approval process inside the  
11 bank, obtaining sign-offs from several departments,  
12 including the legal compliance regulatory controllers,  
13 financial controllers, corporate treasury, internal  
14 audit, technology, operations, and reputation risks  
15 departments. I think that's all of them.

16 Each of these businesses also created value  
17 where others hadn't seen it yet. At bottom, they were  
18 all very simple ideas, but seeing the opportunity  
19 required a detailed understanding of the intercession  
20 of applicable legal, regulatory, and accounting rules.  
21 That's a theme that we're repeating here at Avanti.

22 Each of those businesses was a startup that  
23 operated within the big banks' infrastructure, but was  
24 stand-alone profitable after cost allocations. The  
25 revenue model for the latter two was purely fee based,

1 and the other generated higher returns on the bank's  
2 operating capital.

3 Again, in context, during those years, I had  
4 primary responsibility for three regulated financial  
5 institutions that were wholly owned subsidiaries of the  
6 bank, including two from Bermuda reinsurance companies  
7 while at Credit Suisse, and a Texas-domiciled life  
8 insurance company while at Morgan Stanley.

9 Representative clients of these three startup  
10 businesses included MetLife, General Motors, Verizon,  
11 Bristol Myers Squibb, Motorola, J.C. Penney, Timken,  
12 and other large companies.

13 So to sum up, I have not run a bank  
14 previously, but I have run regulated financial  
15 institutions. I've been responsible for filings,  
16 regulatory filings, including audited financial  
17 statements, and interacted heavily with regulators.

18 And I anticipate the Texas Department of  
19 Insurance's triennial regulatory exam process will be  
20 similar in breadth and depth to what Avanti will face  
21 with our supervisor here at the Wyoming Division of  
22 Banking.

23 Next, let me turn to blockchain, Wyoming, and  
24 the path to forming Avanti. In 2012, I came across  
25 bitcoin while I was at Morgan Stanley. Like almost

1 everyone who comes across bitcoin at first, I did not  
2 think it would succeed.

3                   By 2013, I took time to really learn about it  
4 and started attending bitcoin meet-ups and conferences  
5 after work and on weekends and after hours and then  
6 started buying it personally.

7                   In May 2014, Morgan Stanley was hosting the  
8 corporate treasurers of the largest companies in the  
9 United States, the Fortune 20 companies or so. And the  
10 treasurer of one large company who was co-hosting  
11 selected bitcoin from a list of topics about -- about  
12 which she thought her colleagues would be interested in  
13 hearing a presentation.

14                   So I drafted that presentation about bitcoin  
15 with Morgan Stanley's logo on it. In May of 2014, it  
16 went all the way up to the head of compliance for  
17 approval, and they approved it for release in this  
18 small private setting in May of 2014.

19                   The interest level and engagement from those  
20 corporate treasurers was very high. And many of them  
21 face real challenges moving money around the world,  
22 especially in countries without well-developed banking  
23 systems, and some of them correctly thought that  
24 bitcoin could become a useful solution for them.

25                   Some of them followed it up. And in a few

1 cases, we have continued to talk about bitcoin from  
2 that meeting in 2014 until today. This experience is  
3 relevant for Avanti, where we are targeting the  
4 corporate treasury market as one of our target markets  
5 for Avanti's payment solutions.

6 Back to the chronology, though. By late  
7 2014, Morgan Stanley's chief technology officer called  
8 me to talk about bitcoin and blockchain, which was by  
9 then garnering significant attention in Wall Street's  
10 technology circles.

11 Net-net. In addition to my big job in  
12 pensions, I ended up as one of the five people on  
13 Morgan Stanley's blockchain working group, along with  
14 its CTO, technology officer -- or chief technology  
15 officer, as well as its head of operations and two  
16 senior executives from trading. We vetted the myriad  
17 startups that were contacting Morgan Stanley, almost on  
18 a daily basis by then.

19 I'm grateful to the CTO because he was such a  
20 skeptic about this whole technology. And in fact, that  
21 pushed me to dig deeper, and the deeper I dug, the more  
22 I realized this is going to be a solution to the very  
23 real problems my corporate clients were experiencing  
24 with the settlement systems with both mainstream  
25 payments and securities. Those are the very problems

1 Avanti is trying to solve, and I'll share more about  
2 them shortly.

3 By 2016, I was all in on blockchain, leaving  
4 Morgan Stanley and joining Symbiont, an enterprise  
5 blockchain startup in New York as president and chairma  
6 of its Board.

7 That year in 2016, I connected with the  
8 innovations team at asset management giant Vanguard,  
9 which took an important step with Symbiont toward  
10 implementation of blockchain technology in securities  
11 markets by completing a pilot project in 2017 that I  
12 co-spearheaded. That pilot went live last year, and  
13 Vanguard is now using Symbiont's blockchain technology  
14 in production in a mission-critical application.

15 I left Symbiont in 2018 and remain very proud  
16 of the team's success. But as that Vanguard pilot  
17 project was proceeding in 2017, something else  
18 important was happening. Bitcoin's price was soaring,  
19 and a lot of the mainstream world was beginning to take  
20 notice that perhaps there was something special  
21 happening here.

22 For example, Fidelity's chief executive  
23 officer, Abigail Johnson, that year, announced that  
24 Fidelity had already been experiencing with bitcoin for  
25 a few years by then. And those bitcoins I started

1 buying in 2013 had become pretty valuable.

2 So I called the UW Foundation and started the  
3 process of establishing another endowment at UW by  
4 donating appreciated bitcoins to fund scholarships for  
5 female engineers, in my father's memory. I'd seen how  
6 hard it was at Symbiont to hire -- to find female  
7 engineers to hire and noticed that they often commanded  
8 premium salaries in the market.

9 But the UW Foundation ran into a problem. As  
10 a Wyoming corporation, none of the digital asset  
11 companies could do business with it due to Wyoming's  
12 money transmission law, which requires the service  
13 providers to hold a dollar-to-dollar reserve in  
14 addition to the value of the bitcoins they were  
15 transferring, thereby forcing them to do business at a  
16 loss, and so they had all pulled out of Wyoming.

17 Therefore, the UW Foundation was not able to  
18 find anyone to liquidate the bitcoin I wanted to donate  
19 back to dollars. I could not believe that Wyoming was  
20 only one of only three states in the United States that  
21 had that problem with similar laws and in which the  
22 digital asset companies could not operate.

23 So I volunteered to help fix the problem. A  
24 college buddy introduced me to Representative Tyler  
25 Lindholm, who had tried to fix it during the previous

1 legislative session, and that was the germ of the  
2 Wyoming Blockchain Coalition, which was a crowd-sourced  
3 all-volunteer effort.

4 Representative Lindholm asked me to spend  
5 that legislative session in Cheyenne helping make the  
6 case to legislators, which I did, and then he kept  
7 pushing me for more and more ideas. He wanted to help  
8 Wyoming's economic development, and he understood the  
9 real economic development potential for Wyoming by  
10 attracting a niche financial services industry here,  
11 just as South Dakota has done with credit cards in the  
12 early 1980s, and now there are 16,000 jobs in the  
13 credit card industry in South Dakota.

14 I understood all this too. And I've always  
15 called Wyoming home. I maintained very close ties  
16 here, even while I was living in New York for 25 years,  
17 including serving two terms on the UW's Foundation  
18 board, as well as spending two decades, along with Greg  
19 Dyekman, on the Arts and Sciences Board of Visitors at  
20 UW.

21 Q Could you please tell the Board about some  
22 formative experiences that revealed the problems that  
23 Avanti is now trying to solve.

24 A Yes. Thank you.

25 The pension business at Morgan Stanley was

1 predicated on a seemingly simple idea: Transferring  
2 ownership of financial assets and liabilities from one  
3 party to another on the same day. But oh, boy, was  
4 that far from simple.

5                   Those pension transactions involved the  
6 same-day settlement of the transfer of ownership of  
7 billions in cash and securities from pension plans to  
8 life insurance companies in exchange for an annuity.

9                   We had a massive problem to solve. All of  
10 the assets absolutely had to transfer on the same day.  
11 If even \$1 of the transfer failed, then the entire  
12 multi-billion dollar transaction would have been deemed  
13 illegal. It would have violated either the regulations  
14 governing the pension plan or the regulations governing  
15 the insurance company or both.

16                   But here's the problem. As you know,  
17 securities settle three days after the trade date --  
18 three days back then, two days now -- and treasury  
19 private equity can take weeks or even months in order  
20 to settle. Remember, absolutely everything had to  
21 settle on the same day.

22                   And even cash, it turns out, might fail to  
23 settle on the same day, given all the approval  
24 procedures required in order to send a multi-billion  
25 Fed wire between two nonbank counter-parties.

1                   To figure all this out, I had to dig very  
2 deeply into the plumbing of the financial system. And  
3 what I saw caused me to dedicate my career to finding a  
4 better way, a better, faster, and less risky way, to  
5 settle the transfer of ownership of financial assets.

6                   Successfully achieving the same-day transfers  
7 requires a small army of people, literally about 200  
8 people, required months of dry-run practices for this  
9 to orchestrate it all in perfect sequence, required  
10 writing a procedures manual with screen shots of  
11 exactly which market metric you rely on and precisely  
12 what time of the day, with detailed contingency plans  
13 if something went wrong. And in one case, we even had  
14 to involve the Federal Reserve Bank of New York to  
15 ensure that a multi-billion dollar Fed wire between two  
16 nonbanks went through without a glitch.

17                   One formative experience during that time  
18 pertained to the seeming esoteric but really important  
19 and very real question: What is cash? Is a bank  
20 deposit really the same thing as cash?

21                   When my client agreed to make a multi-billion  
22 cash payment, what does that really mean? Was the  
23 client supposed to deliver semi trucks filled with \$100  
24 bills -- we actually asked that question -- or make a  
25 commercial bank transfer by Fed wire? But is a

1 commercial bank transfer really a cash transfer?

2 Who shoulders the counter-party risk if  
3 something goes wrong? In other words, what would  
4 happen if one of the two commercial banks failed after  
5 the Fed wire transfers were initiated from the payor  
6 but before the wire was received by the payee?

7 We were talking about billions of dollars of  
8 cash. I've actually seen a previous -- I've seen a  
9 different client's previous large payment get lost  
10 temporarily when it was supposed to go through three  
11 central banks in one day and didn't end up in a payee's  
12 bank account. It took days to find the lost payment,  
13 and the corporate treasurers and their bankers lost a  
14 lot of sleep.

15 But thankfully for these pension  
16 transactions, a template for how to do all of this  
17 politically was set by that first company who executed  
18 it in November of 2012, and that template has been  
19 repeatedly used by others since then.

20 In that first transaction, my client's  
21 pension fund successfully transferred \$29 billion of  
22 assets, literally thousands of dollars of different  
23 assets, to the insurance company on the same day and  
24 with settlement finality.

25 Again, that took two years to figure out how

1 to do something that should have been very simple,  
2 allowing two willing counter-parties to transfer  
3 financial assets on the timeline they both needed to  
4 use which, for different regulatory reasons in their  
5 case, was the same day.

6 These experiences left me wanting to find a  
7 better way. And to connect the dots, all this was  
8 happening right as I was worrying about blockchain  
9 technology, which helped me go down that rabbit hole.  
10 And it was becoming mainstream at that very moment that  
11 I was experiencing all those painful problems with the  
12 tradition financial system.

13 It turns out that blockchain is indeed a very  
14 real solution. It offers the adult version of the way  
15 kids trade baseball cards. They both hold on to both  
16 baseball cards, and they both let go at the same time.  
17 The kids had it right. It's the adults who made it  
18 complicated by adding all these delays and not settling  
19 at the same time.

20 And it turns out that we have the technology  
21 now to enable customers to design their transactions  
22 for what they need, to settle them as fast or as slow  
23 as they want, and programmed to reflect whatever  
24 preconditions they choose to agree to.

25 There's a reason why the digital asset

1 industry is on the forefront of innovation in this  
2 area. Because necessity is the mother of invention.  
3 As Zev will explain shortly, settlement risk is granted  
4 when a digital asset is exchanged for a dollar.

5 When a service provider delivers the digital  
6 asset to the customer and receives dollars in exchange,  
7 usually via the automated clearinghouse or ACH payment,  
8 the service provider is taking a huge risk.

9 The customer, as you know, can claw back that  
10 ACH payment, but the service provider cannot claw back  
11 the digital asset. Once they deliver the digital  
12 asset, it's gone. It cannot be retrieved. It has  
13 settlement finality, usually in minutes. But the ACH  
14 payment doesn't settle usually for days and may not  
15 have settled with finality for 60 days or potentially  
16 even longer.

17 This fundamental mismatch in both the  
18 settlement timing and the settlement finality create  
19 Avanti's business opportunity, which is what our  
20 payment solution solves. As one of Avanti's probable  
21 first customers in the digital asset industry told us,  
22 We need your product yesterday.

23 But Avanti's ambitions go well beyond  
24 servicing only the digital asset industry. As you'll  
25 hear from the recently retired treasurer of Ford Motor

1 Company, as well as the recently retired head of Ford's  
2 treasury IT team later today -- IT, information  
3 technology -- this product should be commercializable  
4 into mainstream payments as well. It provides a  
5 missing piece in a puzzle of solving payments in the  
6 corporate treasury market.

7 I wanted to share all of this background with  
8 you because it hopefully gives you some important  
9 understanding of the problems that Avanti is trying to  
10 solve. There is a lot of capital tied up in unsettled  
11 financial transactions at any given moment which could  
12 be freed up and redeployed to better uses if customers  
13 could settle transactions simultaneously at exactly  
14 just the moment that they choose to schedule.

15 For example, in 2014, at Morgan Stanley, I  
16 worked on a project with a mid-sized computer  
17 manufacturer of hardware that has a global supply  
18 chain, and we quantified that if that company could  
19 move cash between its own subsidiaries around the world  
20 on the same day -- this is its own money -- that would  
21 free up \$200 million in cash trapped on its balance  
22 sheet to cover those unsettled payments. And this was  
23 just one of our smaller clients.

24 So there is a profitable business to be built  
25 by helping customers fix these settlement problems

1 because the customers have huge efficiency gains from  
2 doing that.

3 Avanti's business plan is designed around  
4 unlocking those efficiency gains for customers and the  
5 users of our platform. All of our products are  
6 designed to solve real problems, and they're all  
7 critical pieces of that platform, from online banking,  
8 to Avit, to custody for digital assets, and to the  
9 prime service around digital assets for creating  
10 liquidity around them. Thank you.

11 Q Does Avanti have a board of directors?

12 A Yes. We have already constituted a  
13 five-member Board and have been meeting on a monthly  
14 basis since June. All directors have already received  
15 training about the responsibilities of being a bank  
16 director and have been following the formalities,  
17 despite the fact that, of course, Avanti is not yet a  
18 bank. So that transition is -- will be smoother if  
19 Avanti is granted a charter.

20 Q Could you describe the Board's composition  
21 and its committees?

22 A Yes. The Board consists of five directors.  
23 Two are insiders. Bryan Bishop, our chief technology  
24 officer, and me. And there are three independent  
25 directors. Dick McGinity, John Pettway, and Philip

1 Treick.

2                   Dick could not attend today, but you will  
3 hear from John and Philip later and since Dick cannot  
4 attend, I'd like to get his background on the record.

5                   Most of you know him. He is President  
6 Emeritus of the University of a Wyoming, a long-time  
7 venture capitalist at his own firm in Boston. He has  
8 previously served as a director of a bank. And prior  
9 to that, was a professor at Harvard Business School.  
10 His specialty is business ethics.

11                   Our Board meets monthly, and we communicate  
12 via email or conference call approximately once a week.

13                   Avanti's entire executive team participates  
14 in each board meeting to enhance the flow of  
15 information between management and the board.

16                   The board is very engaged. The directors ask  
17 many probing questions, and they have also been  
18 actively involved in strategic discussions, as Avanti  
19 has received multiple incoming strategic inquiries  
20 already from both nonbanks and banks.

21                   We share that information with directors --  
22 with the directors shortly after we get those calls.  
23 I'm the chairman of the board, and in that  
24 responsibility, I set the agenda as well as host the  
25 Board meeting.

1                   However, the independent directors meet  
2                   always in executive session at every board meeting  
3                   without Bryan or me present or without the Avanti  
4                   executives present, as the last agenda item of every  
5                   board meeting.

6                   We designate a corporate secretary and take  
7                   formal minutes at each meeting and then formally adopt  
8                   those minutes as part of our regular process. Chuck  
9                   Thompson is the appointed secretary of the board, and  
10                  Britney Reddy and Greg Dyekman here, our outside  
11                  counsel, are also assistant secretaries of the  
12                  corporation.

13                  Two of the directors I mentioned earlier have  
14                  prior experience as directors of banks, Dick McGinity  
15                  and John Pettway, both of whom also have extensive  
16                  venture capital experience and have served on many  
17                  corporate boards. John Pettway is also a certified  
18                  public accountant, so in addition to his prior bank  
19                  director experience, he is well-qualified to chair the  
20                  audit committee of the board.

21                  The board has five standing committees, and  
22                  all five members of the Board are currently members of  
23                  each committee. And I'm sure you're familiar with many  
24                  of these committees: The executive committee, the  
25                  audit committee, the digital asset committee, the

1 information technology committee, and the Bank Secrecy  
2 Act/Anti-money-laundering committee.

3 So in summary, we have experienced people  
4 working in and around Avanti's board. The board is  
5 already functioning largely as if it were the board of  
6 the bank. And between the prior experience of Britney,  
7 Greg, Dick, and John, I believe the Board is ready to  
8 make a formal transition to being a board of a bank.

9 Q Will Avanti be competing with Wyoming banks?

10 A No. It's very unlikely we will compete with  
11 local banks for three reasons.

12 First, Avanti will be focusing on digital  
13 assets.

14 Second, Avanti will be serving primarily  
15 large institutional customers for digital assets such  
16 as hedge funds, pension funds, endowments, family  
17 offices, and the treasurers of large corporations.

18 And third, the consumers that we do plan to  
19 serve will be required to have very high minimum  
20 balances.

21 These three characteristics have no overlap  
22 with most of Wyoming's banks, and where there may be  
23 overlap in the customer base, i.e., serving  
24 institutions or high net worth individuals, the  
25 existing Wyoming banks generally do not serve that

1 customer base for digital assets.

2                   We are open to creating a partnership with  
3 Wyoming banks, as we expect they will have digital  
4 assets needs in the future, and we will likely need to  
5 utilize some services from them, as we are not a  
6 full-service bank ourselves.

7                   Q     As a fee-only bank, how do you intend to make  
8 money?

9                   A     The key drivers of our business are four:  
10 asset growth on our platform; transaction volume on our  
11 program; managing our fee schedule; and keeping our  
12 expenses low.

13                   You have already seen from crafting these  
14 applications how profitable fee-only digital asset  
15 based business can be. Although Kraken is in a  
16 different business line, margin opportunities in the  
17 industry are significant. And Britney and Jeff will  
18 shed more light on this question in their  
19 presentations.

20                   Q     What are the biggest risks to achieving your  
21 financial projections?

22                   A     The biggest risk that Avanti faces to  
23 achieving our financial projections are two: First of  
24 all, not achieving our asset growth target; and second,  
25 margin compression, either from reduction in revenues

1 or expenses being too high.

2                   As you will see from our financial  
3 projections, though, our base pay is achievable based  
4 on the direct precedence in our marketplace. And we  
5 think it's actually conservative. And we can walk you  
6 through our reasonableness check during executive  
7 session if you're interested in that.

8                   Q      Has Avanti hired outside counsel?

9                   A      Yes. Although we're not naming vendors  
10 today, you have the names of the law firms in the  
11 stipulation. Obviously, you know Greg Dyekman. He is  
12 our local counsel.

13                   And we have engaged both a top New York law  
14 firm, with significant expertise in banking and  
15 regulatory and commercial law, as our product and  
16 Federal regulatory counsel, as well as the top boutique  
17 law firm in digital assets, also based in New York.

18                   Although not listed in the stipulation, we  
19 should add that we engaged one of the top law firms in  
20 the United States for our patent application for Avit,  
21 and this law firm also happens to have significant  
22 expertise in digital assets.

23                   Q      Did outside counsel review the legal  
24 structure of your Avit product?

25                   A      Yes. There is an extensive write-up of the

1 legal structure of Avit in Avanti's business plan,  
2 which you have in front of you. It was prepared in  
3 consultation with our product counsel, which again, is  
4 a top New York law firm with significant expertise in  
5 banking and commercial law.

6 Again, as this is proprietary and  
7 confidential information, we would ask to discuss this  
8 in further detail during the executive session, if you  
9 would like to pursue that further.

10 Q Do you intend to comply with all applicable  
11 Bank Secrecy Act, anti-money laundering, and related  
12 laws, rules, and regulations?

13 A Yes. You will hear of that. Avanti already  
14 has three very experienced compliance people on our  
15 team. And I will refer back to our motto, Security and  
16 compliance first.

17 MR. DYEKMAN: Thank you, Ms. Long.

18 I tender the witness for questioning.

19 MR. DEMERS: Mr. Chairman, it's my  
20 understanding that the Division is going to rely on  
21 presentation of its case in chief for their  
22 cross-examining of the witnesses; is that correct?

23 CHAIRMAN LAWTON: Yes, sir.

24 MR. DEMERS: Thank you.

25 I'd just like to take a moment. There have

1       been numerous references to an executive session.

2                   At times, the State Banking Board, in  
3       fulfilling its obligations to the public in reviewing  
4       this application, may be requiring information that may  
5       be protected as either a trade secret or proprietary  
6       information, or it could relate to issues of security  
7       that in public would cause problems in terms of  
8       securing the financial institution. Additionally, some  
9       information may be protected by law.

10                  And in the event that it desires to inquire  
11       into those type of matters, we may be asking to hold a  
12       nonpublic session, or what's commonly referred to as an  
13       executive session.

14                  And Mr. Chairman, Mr. Dyekman, at the  
15       prehearing, he indicated that it would be his  
16       preference to address all the executive session or  
17       nonpublic type questions at one time as opposed to  
18       doing them piecemeal and end up being -- you know, just  
19       for efficiency and conducting the proceeding on your  
20       behalf. Your input on that.

21                  CHAIRMAN LAWTON: Yes. My preference would  
22       be doing the presentation all at once.

23                  MR. DEMERS: Very good. Thank you.

24                  And in terms questioning, I would ask to  
25       start with the Chairman and proceed to Mr. Rife, and

1 finish then with a break. Thank you.

2 Mr. Chairman?

3 EXAMINATION BY THE BOARD

4 CHAIRMAN LAWTON: I just have -- I appreciate  
5 the presentation. It was a lot of information and  
6 helped me understand it.

7 But I'm just curious. I don't know about the  
8 competition you're talking about. I thought I heard  
9 you were working with trusts also? Did I hear that, or  
10 did I misunderstand that?

11 MS. LONG: No, Mr. Chairman. However, we are  
12 interested and open to the potential to work with trust  
13 companies. And a few trust companies have reached out  
14 to us where we would potentially provide digital asset  
15 custody services to their customers, for example, as a  
16 trust rating.

17 CHAIRMAN LAWTON: You also talk about audits.  
18 And you're mostly fee-based. And I'm trying to  
19 understand how the audit reporting would work.

20 MS. LONG: Sure. To be clear, Mr. Chairman,  
21 the deposits are US dollar deposits. They are not  
22 digital asset deposits. I think everyone on this  
23 committee is aware of the difference between the trust  
24 deposits and the deposits function of a bank. It would  
25 be important to get that on the record.

1                   We will not be obtaining those deposits,  
2 because we will not be generating much interest income,  
3 if any, from the asset side of our business. As a  
4 result of being a special-purpose charter, we are  
5 required to conduct only in high-quality liquid assets,  
6 which don't generate such yield.

7                   So from a deposit perspective, really, what  
8 we're interested in is working with our existing  
9 customers who will also be working with digital assets  
10 and and/or our payments product.

11                  So that is a necessary building block to the  
12 business. It is critical that we be a deposit-taking  
13 institution, but it is not a big part of our business.  
14 And from a competition perspective, the traditional  
15 banks should easily be able to beat us, in that we're  
16 not paying interest on deposits.

17                  CHAIRMAN LAWTON: Thank you.

18                  MR. RIFE: Good morning, Ms. Long. Thank you  
19 for the testimony. It was eloquent and established a  
20 good foundation, so appreciate that, along with the  
21 comprehensive application.

22                  Maybe to dovetail on the Chairman's question  
23 just a little bit. You mentioned in your presentation  
24 that the bulk of your work is going to be in your trust  
25 powers. And so would you just walk us through where

1 that comes from, this 13-12?

2 MS. LONG: Yes. 13-12 is the statute that  
3 provides -- that creates the special purpose depository  
4 institution charter. I don't have a precise statutory  
5 reference. Perhaps when Mr. Thompson testifies in a  
6 moment, he can provide that precise statutory  
7 reference.

8 But what -- what the statute does is enables  
9 the bank charter to take deposits of dollars but to  
10 handle digital assets through its trust powers. This  
11 is generally very different from a new type of bank  
12 charter that has been granted in Switzerland, where in  
13 Switzerland, the bank can actually take deposits of  
14 digital assets.

15 Now, in Switzerland -- of course, they're  
16 used to dealing with foreign currencies all the time,  
17 so essentially, the regulator in Switzerland, FINMA,  
18 will look at digital assets as just another type of  
19 currency.

20 But to be clear, the statute in Wyoming only  
21 allows a special-purpose depository institution to take  
22 digital asset through the trust powers not on the bank  
23 balance sheets as deposits.

24 As a result, it probably is helpful for you  
25 to think of what the balance sheet of the big custom

1 banks in the security industry look like. So, say,  
2 Bank of New York, for example, has relative small  
3 deposit basis on balance sheets, but the trust assets  
4 in which they provide custom services, their assets  
5 under administration, are many, many, many multiples of  
6 the deposits on their balance sheet and I would not be  
7 surprised if Avanti looks very similar.

8 MR. RIFE: Thank you. Maybe in just broad  
9 terms, because you've already talked about it, and I  
10 think others will after you as well.

11 You know, historically, banking in Wyoming  
12 has been traditional community banks, and we know the  
13 lane that banks in Wyoming operate in. The creation of  
14 this fee charter is already pushing the envelope and  
15 going in a different direction -- alongside, but  
16 different -- and I'm not -- I'm not suggesting that's  
17 good or bad.

18 But your application states that you've  
19 complied with all of that. But by that nature of what  
20 you're doing, you're also testing and pushing many  
21 other boundaries that you described in your testimony  
22 today. And again, I appreciate that testimony.

23 Could you just talk for us -- to us a little  
24 bit about the comfort level we should have of this bank  
25 operating outside of this traditional path we've seen

1 so that we can anticipate that you will be successful  
2 in your efforts.

3 MS. LONG: Yes, thank you, Mr. Rife, and  
4 members of the committee.

5 It is a very different bank. I know you know  
6 that, because it's not lending and therefore, its  
7 profits come from a very different part of the  
8 business. It's a fee-based bank.

9 As a result, the risk is really quite  
10 different. The normal risks of a traditional bank  
11 include credit risk and interest rate risk, as all of  
12 you know very well. And because Avanti and the  
13 special-purpose depository institutions are not  
14 permitted to make loans, they cannot earn yields by  
15 taking credit and interest rate risks.

16 And as a result, the operating risk is really  
17 the largest risk for the special purpose depository  
18 institution. Britney Reddy will go into this in much  
19 greater detail in a moment, but that's probably a good  
20 introduction to how different it is.

21 We have different operating risks, for sure.  
22 We have some of the same ones that all of you do, the  
23 core banking system risk, the compliance risk, the  
24 procedures relating to the release of customer cash.

25 But interestingly, the way I think about

1 the -- the company with digital assets is really not  
2 that different from the way a traditional bank would  
3 think about vault cash.

4 That is an asset that could walk out the  
5 bank, outside the bank, if someone actually does get  
6 access to it. So the physical security around the  
7 storage of that is of utmost importance. And for a few  
8 hundred years, banks have -- the banks have built their  
9 whole security around vault cash.

10 It's not foolproof, but digital assets are  
11 predominantly stored offline, and so the physical  
12 security of the storage of those is really not that  
13 different than the physical security of the vault cash.

14 The additional operating risk comes in when  
15 the digital assets are online. That's when that -- the  
16 operating risk that -- that's the purpose that a  
17 depository institution has, is greater than the  
18 operating risk of a traditional bank. And both Britney  
19 and Zev will talk about our strategies for mitigating  
20 that risk and also for insuring it.

21 MR. RIFE: Thank you. One more follow-up, if  
22 I may, and related. That's helpful.

23 On the other side of the equation is your  
24 relationship with the regulator. In this case, the  
25 Division of Banking doesn't have either the co-equal

1 partner, like a Federal Reserve or an FDIC.

2 You talk a little bit about your relationship  
3 with the regulators and how you see this going forward,  
4 because again, that's -- that's not the traditional  
5 path that the Division of Banking has been on. And so  
6 how are you all going to work together to make this  
7 successful in the long term?

8 MS. LONG: Yes, thank you, Mr. Rife. This is  
9 a good question. I have been working very closely with  
10 the Wyoming Division of Banking, since the germ of a  
11 special purpose depository institution idea, which I  
12 remember talking about with Commissioner Forkner in  
13 July of 2018 at a blockchain task force meeting in  
14 Jackson Hole.

15 And there's been so much work done to get to  
16 this point, including developing the expertise on the  
17 Wyoming Banking -- or the Banking Board as well as  
18 introducing them to the service providers who can help  
19 them not only learn about digital assets but, more  
20 importantly, create a supervisory manual and  
21 supervisory program to supervise digital asset  
22 providers.

23 What is interesting about this is, it was  
24 coming. It absolutely was going to be picked up by a  
25 bank regulator somewhere first. And that's the --

1 that's the opportunity that Wyoming had in being first.

2                   As you probably are aware, the national bank  
3 regulator in July released the first of a series of  
4 interpretive letters allowing national banks,  
5 essentially, to copy the Wyoming special purpose  
6 depository institution's powers in this area.

7                   It's not that easy, though, for a bank  
8 regulator to get -- to allow banks to get into new  
9 businesses like that because, of course, new rules have  
10 to be promulgated, and a supervisory manual has to be  
11 prepared. That all took more than two years, in  
12 Wyoming's case.

13                   I think from an outsider's view, this looked  
14 like it might have come out of left field if you  
15 weren't paying attention in Wyoming, as we all were,  
16 but -- but in fact, actually, this has been underway  
17 for more than two years.

18                   And I do also note that for helping to  
19 promulgate the rules, that you'll hear a little bit  
20 about the rules today. Those were put together by an  
21 advisory group that included a significant number of  
22 digital assets industry persons, okay, and outside --  
23 outside attorneys and consumer advocates.

24                   It was fun to watch the consumer advocates  
25 working with the group to try to insert with the

1 industry which wanted certain things, and the consumer  
2 advocate was wanting others, pushing back, to get to a  
3 place. There were some very heated discussions about,  
4 What is the obligation of a digital asset service  
5 provider when there's something called a fork in a  
6 network?

7 A fork in the network is probably easiest  
8 thought about as a soft dividend. You get a new share  
9 of stock that is attributable to the ownership of your  
10 original share of stock. That's the easiest way to  
11 think about it. There's value to that. Whose value is  
12 that?

13 And Wyoming in their rule was very clear.  
14 That value belongs to the customer. That value does  
15 not belong to the service provider. And in fact, one  
16 of the issues in the digital asset industry is that the  
17 service providers have held on to that value because  
18 they didn't promise that they would give it to the  
19 consumers. It's a consumer issue.

20 So that's an example of the type of  
21 discussion that we had, and it was very robust. It was  
22 a many-months long process just to draft those rules  
23 before the rules were adopted.

24 And then, Commissioner Forkner will obviously  
25 share the work that's been done on the supervisory

1 manual. As an applicant who then has the breadth of  
2 the timing of that manual, and we've been told we will  
3 shortly be receiving the bank's secrecy act and  
4 anti-money laundering portions of that, so we can fully  
5 make our program consistent with what is expected of us  
6 in that process.

7                   And I would wrap up that comment by saying,  
8 we are at least two years ahead in Wyoming of the  
9 national bank regulators. They've got a lot of press  
10 by putting those interpretive letters out.

11                   And in fact, actually, we have received  
12 inquiries from national banks who want to work with us  
13 as a sub-custodian. They are coming in this industry,  
14 and the Wyoming banks, because they are banks, are the  
15 preferred partners to work with the megabanks in those  
16 industries, because we're ready.

17                   Thank you.

18                   MR. DIXSON: Thank you for your testimony,  
19 Ms. Long. I don't have any questions but certainly  
20 appreciate you helping to educate and continue to  
21 educate all those parties involved. So very  
22 well-assembled and articulate testimony. Thank you.

23                   MS. LONG: Thank you.

24                   MR. JENSON: Thank you so much, and I love  
25 your business plan. It was informative and, may I say

1 on my behalf, educational.

2                   My question revolves around your prime  
3 services strategically after, probably, the first three  
4 years. You specifically on page 6, and then also on  
5 page 11, list prime lending consumers of digital assets  
6 as trustee.

7                   My question is: Is this a refi or  
8 decentralized finance program? What -- would you  
9 expand on lending assets as a trustee or matching  
10 assets and how that process will work and what Avanti  
11 will receive in the whole program.

12                  MS. LONG: Yes, thank you. I'm glad you  
13 asked that question, because we are a nonlending  
14 charter, and you mentioned the word "lending," and  
15 that's an obvious case where it needs a clarification.

16                  To be clear, Avanti cannot lend, and the  
17 lending of customer deposits is absolutely prohibited  
18 by statute. So how does lending even come up in a  
19 business plan for a charter like that?

20                  It pertains only to the trust fund system.  
21 And the best analogy is how the State Citizens Bank of  
22 New York of the securities world works. They have  
23 custody of assets, the securities, for their clients,  
24 but sometimes their clients direct them to go out and  
25 earn income on those securities by lending them.

1                   In those cases, they probably lend on a  
2 principal basis. I don't know for sure. But of  
3 course, Avanti would not be able to do that. We are  
4 only able to work as an agent in providing those  
5 services to our customers. And for those of you who  
6 are sensitive to the legal structure, that would be as  
7 a directed trustee only.

8                   So we cannot go out and lend customers assets  
9 unless the customer specifically directs us as trustees  
10 to do so. Again, it would not be Avanti's own capital,  
11 and -- actually, I think all three of the next  
12 executives you'll hear from will be talking about this  
13 to clarify.

14                   Lending, first of all, is not a product that  
15 we intend to introduce right away. It's something more  
16 down the roadmap. But we do estimate, given what's  
17 happened in this industry, that we will have to offer  
18 that service.

19                   And so just to wrap up, we would be a  
20 platform where lenders and borrowers can meet. The  
21 lenders, of course, would be -- would be -- yes, the  
22 lenders would be those who post collateral through  
23 their trust deposits of digital assets on our -- on our  
24 books, and then the borrowers would be those that want  
25 to come in and borrow the bitcoin for their own use,

1 just as a security lending program would work where you  
2 have an outside borrower come in, wanting to borrow the  
3 customer's security and pay them a yield for that.

4 I should mention, there are traditional banks  
5 that are lending against digital assets as collateral  
6 as a profitable business. And one of the inquiries we  
7 hear is by a bank that wants to be the lender of record  
8 for our platform, to the event that we actually do have  
9 customers for lending out there, digital assets on  
10 deposit in our trust department.

11 MR. JENSON: Thank you for that answer, and  
12 may I follow up.

13 MS. LONG: Yes.

14 MR. JENSON: So basically, Avanti's role is  
15 not in credit underwriting in any way. It's just the  
16 vehicle of assets; is that correct?

17 MS. LONG: That's a great summary, better  
18 summary than mine. Thank you.

19 MR. FRANCE: Ms. Long, thank you for your  
20 testimony.

21 And to some degree, I just -- a comment to,  
22 that lending is -- I think traditional banks also  
23 facilitate that vehicle, only it's a little bit -- it  
24 is a little bit different.

25 And so I do believe there is some -- and I

1 look forward to further testimony for clarification on  
2 that, because to me, that line right there is very --  
3 we're toeing that line, and it's very concerning to me  
4 that this -- with respect to this SPDI charter that we  
5 don't cross that line or don't approach that line based  
6 on this, the nature of this.

7                   On another note, you talk about your target  
8 audience being high net worth individuals, including  
9 customers with, you know -- left in a very large amount  
10 of deposits. Traditional banks under the FDIC are  
11 subject to the guidelines which certainly apply to  
12 lending but are also subject to TSTD and consumer  
13 protection laws that -- you know, that really strongly  
14 guard against red-lining and those types of practices.

15                   Can you talk a bit and help us understand  
16 maybe how your institution looks at this, uses it, and  
17 maybe even some consideration, either regulatory-wise  
18 or reputational-wise, that could come as a result of  
19 targeting only high net worth?

20                   And I understand your prime target is  
21 institutional and is a little different than consumers,  
22 but you also have -- you've indicated that you will be  
23 also targeting consumers.

24                   So if you could just talk to that and help us  
25 understand how you and your company views this type of

1 facts.

2 MS. LONG: Yes. Thank you for the question.

3 Yes, we had a big conversation in the  
4 beginning with Britney Reddy about whether we even want  
5 to serve consumers at all. Our primary customer base  
6 really is institutions.

7 And we elected to go ahead, knowing full well  
8 that the regulations that you're alluding to come into  
9 play, especially with the FTC, the Consumer Financial  
10 Protection Bureau regulations come into play, when --  
11 the moment we start servicing an individual customer as  
12 opposed to an institutional customer.

13 But what we learned is that a number of the  
14 family offices who are actively trading digital assets  
15 and who are -- or who are literally just holding  
16 digital assets as long-term assets, some of them really  
17 actually do prefer to operate as individuals.

18 So by not serving consumers, we wouldn't be  
19 able to service those who do act as individuals as  
20 opposed to through a trust or through a limited  
21 liability company or other business entity structures.

22 So we elected to go forward. Our way of  
23 handling the compliance is to limit the -- the value to  
24 very high minimum balances. We are not tasked to  
25 handle a more mass-market consumer.

1                   And our initial plan is to focus on  
2 institutions only. But the moment we open it up for  
3 consumers, we understand that the red-lining and those  
4 regulations that we have to comply with, we have to  
5 comply with them equally and on a nondiscriminatory  
6 basis.

7                   So the way we're handling it is literally to  
8 set the minimum balances at a very high level so that  
9 we will have to service all customers who do meet our  
10 requirements and are able to meet that minimum high  
11 balance requirement.

12                  MR. FRANCE: In follow-up, doesn't that  
13 indicate a high minimum balance essentially draws a red  
14 line?

15                  MS. LONG: Yes, in a way, it does. I  
16 understand your point that by only servicing high net  
17 worth individuals, by definition, we are excluding  
18 those that don't have or don't want to put a high  
19 minimum balance with our bank.

20                  But that's the way we've set up. We really  
21 are not set up to handle consumers, and that is why  
22 we're different than Kraken, and we have actually  
23 talked to them about, to the extent that we have  
24 consumers that do actually want to engage with us, that  
25 we will end up probably sending them over to Kraken,

1 because they have the compliance staff and the  
2 operational staff, including customer service, for  
3 professionals who can serve those customers.

4 You mentioned something about FDIC earlier,  
5 and I didn't bring that in, but I think it's  
6 appropriate to bring it in now.

7 Because we're dealing with businesses and  
8 high net worth individuals, we're -- we're dealing with  
9 net balances that are going to be far in excess of the  
10 FDIC insurance limit. Britney's going to talk about  
11 this.

12 But the statute in Wyoming enables us to get  
13 FDIC insurance on an optional basis. We're not sure  
14 the FDIC would allow us to become an insured bank  
15 because digital assets are involved -- the digital  
16 assets.

17 But at the end of the day, if it turns out  
18 that our customers do want that for some reason, we're  
19 not averse to becoming FDIC insured. And again,  
20 Britney will -- will share some of that. We recognize,  
21 at that point, that that would bring even more  
22 regulations that we would then have to comply, and so  
23 we would have to staff up if we were to do that.

24 But it is not -- to be clear, it's not in our  
25 business plan right now, and only if our customers

1 demand it that that becomes relevant. I'm used to  
2 working with corporate clients who spend a lot of time  
3 understanding the counter-party risks at their bank,  
4 because the deposits that they have are deposits that  
5 far exceed the FDIC insurance limit.

6 MR. FRANCE: Thank you. One more question.  
7 Somewhat -- a little bit different.

8 I guess in reading the little bit that I read  
9 here, you talked about ACH -- you talked about ACH for  
10 the future, identifying the problems for faster  
11 payments due to the costs.

12 Traditional banks are subject to, as we  
13 talked about, through FDIC laws that present them from  
14 drawing bad actors. In the event of fraud or bad  
15 actors that do not -- or merchants that don't act in  
16 good faith, how does what you're doing protect the  
17 customer, the consumer -- does not matter what their  
18 deposit base is -- how does it protect the consumer?

19 And I guess what I'm getting at is, if you  
20 speed up the process and, as you suggest, remove the  
21 ability to claw back the ACH, if you will. Oftentimes,  
22 it's what helps you determine when fraud has taken  
23 place. If you eliminate that mechanism of time, how do  
24 you protect the consumer, or how do you propose to  
25 protect the consumer?

1                   MS. LONG: Sure. I don't think consumers, as  
2 we think of consumers will be actively engaging in what  
3 we're doing. We are -- we're working with  
4 sophisticated customers who have their own armies of  
5 attorneys and internal processes and controls before  
6 they're able to release a payment.

7                   And it's also worth noting that this isn't --  
8 what we're doing is not in lieu of. It's in addition  
9 to the existing payment system. So the challenge of  
10 ACH, especially in the digital asset world, as you  
11 agree to, is the fact that those payments can be  
12 challenged and clawed back.

13                   But in a corporate world, that is -- that is  
14 not something that they're used to dealing with. The  
15 corporate -- they are interested in a faster payment  
16 process that gives them settlement finality because  
17 they know who their counter-party is, and there really  
18 isn't going to be fraud in a very large corporate  
19 payment.

20                   That's all -- both sides, both banks  
21 involved, will, of course, have to go through the  
22 customer and the whole path of foreign assets and  
23 control, analysis of the customer. They will know the  
24 identity of the customers; and therefore, there really  
25 isn't the fraud problem that there is in the consumer

1 world.

2                   And as a result, when a customer wants to  
3 settle the transactions quickly -- which if you think  
4 about it -- and you'll hear from the Ford team today of  
5 some examples of mission-critical payments. These are  
6 high-value payments that go into a black hole, and very  
7 hard to trace them, until they come out the other side.  
8 If they don't come out the other side, that's where you  
9 see everybody's got problems.

10                  That -- those types of payments, given the  
11 mission-critical nature of them, are payments that are  
12 very -- very appropriate for a fast payment settlement  
13 system that has settlement finality, whereas a smaller  
14 payment, paying for this bottle of water, it has a  
15 consumer involved, probably would not be.

16                  So this is not in lieu of ACH. This is --  
17 this is in addition to where customers can elect to  
18 have a payment that goes through faster and with  
19 settlement finality, because the delays in settlement  
20 finality are what create the problems, and the digital  
21 asset world is very, very attuned to all of this.

22                  For those who are experienced in foreign  
23 exchange, you'll recognize this. It's something called  
24 air shot [phonetic] risk. The foreign exchange market  
25 used to work on sort of a gentlemen's agreement that

1       they were going to settle, you know, for example, for  
2       the next day.

3                   And that is exactly how the digital asset  
4       world works, that trades happen, and then you agree to  
5       settle within 24 hours right now. But think about the  
6       settlement risk of settling something that the -- where  
7       the underlying settles in minutes and the dollar  
8       payment might not come for 24 hours.

9                   That's a -- that's a problem. And so there's  
10       absolutely fraud and -- and challenges on the consumer  
11       side that the ACH system is designed to solve, but that  
12       system doesn't fit very well with what I just  
13       described, which is that both counter-parties want to  
14       settle quickly and be done with it and not have capital  
15       tied up in unsettled transactions.

16                  MR. FRANCE: So you're suggesting that,  
17       basically, there's a known partnership prior to a  
18       transaction, is essentially what you're saying.

19                  I mean, I think that's just the part that I'm  
20       struggling with here, mostly because, in our world,  
21       generally, we're speaking in nonfraudulent  
22       transactions. There's also that known partnership.  
23       However, we see corporate account takeover. We see ACH  
24       fraud. I mean, most recently, ACH fraud comes from  
25       the -- unemployment fraud, through the ACH system.

1                   So, you know, I think in the digital world,  
2 and maybe you can tell me, but one of the largest risks  
3 that we have is fraud. And so everybody on our side of  
4 the bank, on your side of the bank, has great  
5 intentions; but in the event that fraud happens to rear  
6 its ugly head in our organization, and you have now a  
7 fraudulent actor and another partner on the other end  
8 making a billion-dollar transaction or multibillion  
9 dollar transaction versus a \$50 transaction.

10                  This is typically -- that's where, you know,  
11 I understand that you're telling me that, you know,  
12 we've got two people, but we always seem to have two  
13 people, you know. We don't believe that we have red  
14 flags nationally that kind of prevent that transaction  
15 from happening. So if you could maybe help me  
16 understand, how do you prevent that fraud?

17                  MS. LONG: Yes. The most important aspect in  
18 prevention of fraud is understanding the optics, the  
19 identity, of who's actually putting in that  
20 instruction.

21                  And Bryan is going to spend a lot of time  
22 talking about how we authenticate customers and verify  
23 that the instructions that they're giving us is  
24 actually legitimate and actually did come from them.  
25 So that is how we know.

1                   This is a -- this is a problem, you're  
2 absolutely right, in payments. I literally, all of us,  
3 lost the wire transfer for selling my house when I  
4 moved to Wyoming, because there was a fraudulent actor  
5 who was in control of my law firm's email server, and I  
6 thought the emails were coming from my lawyer. They  
7 were coming from his email address but not from him,  
8 and in fact, I got to know the FBI offices here in  
9 Cheyenne pretty well as a result of all that.

10                  So I'm very familiar with that experience,  
11 having almost lost that wire transfer. And a big  
12 problem was that the authentication of the -- of my law  
13 firm wasn't legitimate.

14                  And so the levels of security that we're  
15 going to be going through are, I think, going to help  
16 gain -- give you comfort that the instructions that we  
17 will have from customers when instructing us to move a  
18 digital asset on their behalf -- and even the US  
19 dollars.

20                  Our authentication is going to be much more  
21 difficult, precisely because of the fact that we are a  
22 digital asset bank. Which is another reason why -- why  
23 I think we probably wouldn't deal with that as a  
24 competitor, even in a high net worth individual market  
25 for US dollars.

1                   We talked earlier about not being able to pay  
2 interest. We're also going to make the customers jump  
3 through hoops to authenticate that they are who they  
4 really are in order to accept their -- their  
5 instructions for moving any type of asset, especially  
6 assets involved in US dollars, because it's all going  
7 through the same portal with the same authentication.

8                   MR. FRANCE: So last question. So as you ask  
9 them to jump through hoops, that is not  
10 counter-productive to the ease of the process -- I  
11 mean, it seems somewhat contrasting.

12                   MS. LONG: That's a very good question.  
13 There is absolutely a tension between ease of doing  
14 business and security. And we are hopefully going to  
15 get that right in the way that we've designed that.

16                   And Bryan can go into some detail about that.  
17 You may want to take some of that into executive  
18 session because it does get us into the IPR  
19 professional and security design.

20                   But you're absolutely right. In digital  
21 assets, there is no lender of last resort. So if it --  
22 if that bitcoin is lost, it's gone. And therefore, the  
23 level of proof that you have to have customers jump  
24 through, by definition, are higher.

25                   There is -- there is no ability to borrow on

1 discount as we know, because they only lend your  
2 dollars, and so that lender last-resort function is not  
3 there. It is -- it is, in that regard, a very  
4 different market and it's a very different system that  
5 is likely to be -- if the code's with the existing  
6 ones.

7 The questions you're asking are all very good  
8 questions related to the real-time ACH payment. As you  
9 know, there's an initiative in real-time ACH payments.  
10 And then, now, we haven't talked about that.

11 Avanti -- and there's a market for a central  
12 bank digital currencies, as I'm sure you're aware as  
13 well. China has already got its pilot program pretty  
14 far extended out into the Chinese economy for its own  
15 central digital currency.

16 And of course, one of the benefits of digital  
17 currencies is that the transactions can be traced, so  
18 you always can tell where the money went. You just  
19 don't necessarily go get it as a result of that because  
20 it goes into what's called a public -- a public wallet,  
21 a public fee address. And -- but mostly by working  
22 with law enforcement, that -- that it's pretty devious  
23 to figure out where those coins went.

24 One example, and Chuck will be talking about  
25 it, is the Twitter hacker. The Twitter hacker in July

1 was -- the digital asset industry knew within minutes  
2 who that Twitter hacker was because it turned out that  
3 the hacker had used a digital asset exchange, and all  
4 of the digital asset exchanges happen to comply with  
5 FINRA's requirements. They -- they do the  
6 anti-money-laundering, all of that analysis on the  
7 customers, and they knew within minutes who that  
8 Twitter hacker was.

9 So it's a different -- it's such a different  
10 group of problems, and a different level of product.  
11 The old products -- literally, if you think about it,  
12 think about the vault cash. A hundred years ago,  
13 frauds were different than they are today. So fraud a  
14 hundred years from now, it's going to be very different  
15 than they are today as well. It's a -- it's a  
16 different level of fraud.

17 But we can, at least, trace where those  
18 assets go, and once you know where those assets went,  
19 as -- as the FBI has proven in a couple of the things  
20 that they've done. They actually can dig up the IP  
21 address, and once you can figure out the IP -- the  
22 Internet protocol. Once you can figure out the IP  
23 address, ultimately, you're very likely to be able to  
24 connect it to one person.

25 MR. FRANCE: Thanks.

1 CHAIRMAN LAWTON: I know we had a question --  
2 I know we had a question from Bob. We can see him, but  
3 he can't talk, correct?

4 SPEAKER: Yes. Correct.

5 CHAIRMAN LAWTON: Okay. Short one.

6 Thank you for your excellent, innovative  
7 testimony. I know we will discuss Avit in executive  
8 session, but you mentioned on behalf of parties payment  
9 transactions in other states that do not have Wyoming's  
10 legal infrastructure.

11 Can you elaborate on the problems that have  
12 arisen from other banks attempting to complete payments  
13 and audited transactions in states without Wyoming's  
14 laws which, you referenced addressed a legal statute --  
15 or legal digital asset transactions.

16 Have there been problems beyond the ones you  
17 referenced about having to settle with multiple parties  
18 at once?

19 Also, can you address the shortcomings of  
20 stablecoin, which I understand is coming to be  
21 produced, a proxy for transactions using the fiat byte,  
22 tracking method. Thank you.

23 MS. LONG: Yes. Those are good questions.

24 CHAIRMAN LAWTON: If you want to look at --

25 MS. LONG: Oh, no, no, that's fine. Those

1 are some good questions in there.

2                   One thing to highlight is that Wyoming did  
3 jump out ahead of other states on clarifying the  
4 commercial loss treatment of digital assets, and that  
5 is what Mr. Grady's question is alluding to.

6                   So what does it mean that other states  
7 haven't done that yet? It's a huge advantage for  
8 Wyoming. Frankly, it's the most important thing that  
9 Wyoming did in the blockchain initiative is really just  
10 categorized digital assets and matched them to the  
11 existing commercial loss categories.

12                  And -- and what I'm alluding to here is, are  
13 digital assets securities? Are they money? Are they  
14 commodities? Are they something entirely different?  
15 These are questions that have not been answered  
16 anywhere else in the United States except for Wyoming.

17                  Now, most intermediary -- all intermediaries  
18 can do something called a Uniform Commercial Code  
19 Article 8 and consider a financial asset to be a  
20 financial asset under the definition of Article 8.

21                  And indeed, that is -- when two  
22 intermediaries are transacting with each other, that is  
23 very clear that the law applies. And so, any type of  
24 financial asset, including a digital asset, could fall  
25 into that category. The challenge becomes when an

1 individual who is not an intermediary is involved, and  
2 that is where every other state's law is unclear, and  
3 that is where Wyoming's laws are clear.

4 Now, you may be thinking that's not that big  
5 of a deal, except 75 to 80 percent of digital assets  
6 are owned by individuals. These are bearer  
7 instruments, and the individuals own them outright  
8 themselves instead of having them deposited in as a  
9 intermediary.

10 So there is a legal gray area for  
11 institutions operating outside of Wyoming precisely  
12 because there's an individual involved in a  
13 transaction. It is not 100 percent clear that the  
14 legal status of that transaction is enforceable, and  
15 it's not a hundred percent clear what a judge would do  
16 in the event of litigation involving a transaction  
17 where an individual was involved in digital assets.

18 So, I think where Mr. Grady's question is  
19 going is, what does that mean for the digital asset  
20 industry?

21 Right now, it is operating in a legal gray  
22 area. This is part of the reason why Wyoming has added  
23 so much value, and the biggest request of it that the  
24 digital asset industry has is just clarifying things.  
25 We can operate in a clear legal regime as long as the

1 legal regime is properly defined.

2                   And Wyoming, to be clear, did not change its  
3 Uniform Commercial Code. It just created an appendix  
4 to match digital assets to the existing categories. So  
5 now we know exactly what type of road map in the event  
6 of a disputes. Luckily, there haven't been that many  
7 disputes, but to the extent that digital assets values  
8 go up, you're going to see more of them.

9                   Most people in the digital asset industry,  
10 myself included, have just taken our losses and moved  
11 on. But to the extent that more value is involved, to  
12 the extent that we see the failure of a company like a  
13 Mt. Gox, there will be a lot more litigation in the  
14 future. And it's part of the maturation of the  
15 industrial to -- to enable us to get to that point.

16                   But the Krakens of the world, the coin bases  
17 of the world, they're all taking some legal risks in  
18 assuming that there will be individuals -- individual  
19 digital assets in a state that does not have Wyoming's  
20 laws.

21                   Last comment. I am working with the Uniform  
22 Law Commission. I've been appointed an observer on  
23 their program. You may be aware, they are actually  
24 looking at rewriting the Uniform Commercial Code to  
25 allow for electronic transactions as a general rule.

1                   It's not just digital assets. It's also all  
2 kinds of electronic transactions, including what you  
3 have to deal with on a daily basis. There's a reason  
4 why you need a photograph of the check that's being  
5 deposited, and it's because the check actually has to  
6 be in writing.

7                   And those laws are very antiquated. They've  
8 figured out a way to comply with them by allowing a  
9 paper copy -- no, a photo of the check to count as if  
10 it were in writing, but the -- the commercial laws in  
11 the United States are pretty antiquated. They were --  
12 the Uniform Commercial Code was written in the 1950s  
13 when everything was in paper form.

14                  And as you're aware, anything that's in  
15 intangible form, if you're trying to lend against that  
16 and perfect a security interest in it, it goes into a  
17 catch-all bucket that's not easily served, if there's a  
18 lien on that asset.

19                  What's unique about digital assets is that  
20 the data is itself unique. It cannot be replicated.  
21 And once the data is unique, then it becomes a  
22 collectible, because it can't be replicated just like a  
23 piece of fine art. It's a collectible, and it's  
24 scarce, and that scarcity is what gives it value.

25                  So now we actually have the technology to be

1 able to make it clear that data itself can be owned.  
2 And when data can be owned, it can be controlled, and  
3 when it can be controlled, then you can lend against it  
4 and know exactly that you have an enforceable lien  
5 against that asset.

6                   That's what's been missing in this whole  
7 question of electronic instruments in all of the  
8 financial services world. So we have the ability now,  
9 thanks to blockchain technology, to make data unique,  
10 and that's going to enable a lot of things, including  
11 the traditional banking industry over the next decade  
12 or so, to finally move to a totally virtual paperless  
13 world, including mortgages and checks and all the --  
14 all the paper that you're used to dealing with.

15                   But my last comment. The Uniform Law  
16 Commission is expecting to release its model act in the  
17 summer of 2022 -- 2022. So Wyoming is literally four  
18 years ahead of the rest of the United States, and it's  
19 been fun to watch.

20                   In the beginning, there were critics because  
21 you don't like it when states jump out ahead. Wyoming  
22 has a long history of jumping out ahead, as you know,  
23 and so they -- they were initially critical of what  
24 Wyoming did.

25                   But what's been fun for us from Wyoming to

1 participate in their process is to realize how much  
2 they're moving exactly in the direction Wyoming moved.  
3 And so I think when you see a uniform law, it won't be  
4 difficult for Wyoming to conform what we've already  
5 done to the uniform standard. But what we got in  
6 exchange was the jump out ahead, and so it was  
7 definitely the right thing to do.

8 Mr. Grady also asked about stablecoins. I'll  
9 give a short answer to that.

10 Stablecoins are -- are not what Avit is, in  
11 part because Avit is not using any of these unique  
12 Wyoming laws. The Avit is a -- is -- the Avit relies  
13 exclusively on existing laws, so there is no potential  
14 conflict of law pertaining to Avit versus other states'  
15 laws, because we figured out how to structure it so  
16 that it fits right up the middle of the fairway with  
17 existing laws.

18 Stablecoins are a perfect example of  
19 something that has no legal clarity. Avit is not a  
20 single purpose. To be clear, it uses the same  
21 technology. It just has a very different legal  
22 structure and therefore a different treatment under  
23 accounting and so the whole -- I can't get the  
24 accounting or legal guys here, but we've been told,  
25 very, very different and much more favorable legal and

1 accounting and tax structure than stablecoins.

2 And my last comment on that. If you look at  
3 the stablecoins USDC, which is the institutional dollar  
4 stablecoins, on its website is a very big disclaimer  
5 that says that they are not sure that any transaction  
6 involving a USDC is legally enforceable anywhere in the  
7 world.

8 And so we are trying to solve that problem  
9 with our product, because Avit is -- is using existing  
10 laws. Stablecoins fall in between those buckets where  
11 you don't really know what they are, legally.

12 CHAIRMAN LAWTON: Mr. Grady does have a  
13 follow-up question. What about stablecoins? Is that  
14 the term that that -- is that transaction enforceable?  
15 Is it just being stopped in its tracks by fiat rights?

16 MS. LONG: Yes. I think I just answered that  
17 question. I think so. And this is part of the reason  
18 why traditional institutions can't touch stablecoins.  
19 Because they don't know if they're legally enforceable.

20 A good attorney reading -- well, first, I  
21 called out USDC for having that disclaimer on its  
22 website, but to be honest, I don't mean to call them  
23 out, because I think they just had a better attorney  
24 who was more careful about learning about the risks.  
25 Every single existing stablecoin, including, by the

1 way, when Facebook issues Libra, is going to fall in  
2 that gray area, and no one is really going to know if  
3 it's legally enforceable, because the laws don't exist  
4 in the United States to create something that is  
5 legally enforceable, unless it's issued by a bank using  
6 the structure that Avit is proceeding with.

7 MS. SHARP: Ms. Long, thank you for your  
8 testimony. I don't have any questions at this time.

9 MS. LONG: Thank you.

10 MR. SORENSEN: I don't have any questions  
11 either.

12 MS. LONG: Thank you.

13 CHAIRMAN LAWTON: Can we do a follow-up  
14 question?

15 MR. DEMERS: Yes.

16 MR. JENSON: I apologize. I'm the new guy.

17 On the matter of stablecoins, maybe it's not  
18 a question, but maybe something more for executive  
19 session.

20 But in generating dollars, for example,  
21 doesn't the stablecoin issued by Gemini New York Trust  
22 put dollars back in Main Street Bank, a Federally  
23 insured normal bank?

24 MS. LONG: Yes.

25 MR. JENSON: Can you compare Avit to Gemini

1 dollars so I can better understand Avit's advantage, or  
2 is that an unfair question?

3 MS. LONG: No, it's not an unfair question.  
4 It doesn't get to the proprietary nature. So at a high  
5 level, I can work through it in the public world, and  
6 then we can, of course, follow up if there are  
7 additional questions, yes.

8 So Avit is -- Avit has a really important  
9 advantage that is critical to figuring out how to make  
10 all these things work, which is, that you have to have  
11 a software and a payment system under the same legal  
12 entity if you're going to have the settlement  
13 transact -- settle at the same time as the digital  
14 asset.

15 The problem with having the issuer of the  
16 stablecoins having the dollars deposited at a different  
17 legal entity is that now you have created a sequential  
18 settlement. You can't get it done at the same time.

19 This is one of the big advantages of having a  
20 digital asset custody business inside of a bank. And  
21 it is the reason why stablecoins, frankly, should all  
22 be issued by banks, if they're really going to go  
23 mainstream, because you can't maximize the value of a  
24 software if the US dollar leg of the transaction has to  
25 settle in sequence in a different legal entity. You

1 can't settle them at the same time.

2                   One of the issues that the United States has  
3 had in this -- in the development of this market is  
4 that banks can't custody digital assets due to the  
5 Federal restrictions, and digital asset companies can't  
6 sell payments at the Federal Reserve because they're  
7 not banks.

8                   So you're in this circular situation where  
9 you're required to have the digital asset and the US  
10 dollar in two different legal entities, and as a  
11 result, you can't offer what Avanti is offering.  
12 That's the secret sauce.

13                   Frankly, I think this is also -- it's not  
14 just the digital asset point, although I know your  
15 question was a stablecoin point. There's a reason why  
16 the Syntech companies, the financial technology  
17 companies, like Square, like Vero, like Seko, are  
18 getting bank charters, because they realize that you  
19 cannot have a software company that maximizes the value  
20 of their payment software if it can't also settle US  
21 dollar payment that's proposed.

22                   And so this is ultimately why I think the  
23 financial technology companies that built very  
24 significant front-end payment software are not skating  
25 towards where the puck is going to be and where it is

1 today, which is, that they need to narrow that software  
2 with the ability to settle the payment at the US -- at  
3 the Federal reserve.

4 MR. JENSON: Thank you.

5 MR. DEMERS: Any further questions from the  
6 Board?

7 Mr. Dyekman, in light of the Board's  
8 questions, do you have any additional inquiries of this  
9 witness?

10 MR. DYEKMAN: No, I do not.

11 MR. DEMERS: Thank you, ma'am, for your  
12 testimony.

13 Mr. Chairman, I suggest we take a recess at  
14 this time?

15 CHAIRMAN LAWTON: We'll be in recess.

16 (Recess from 10:13 a.m. to 10:23 a.m.)

17 CHAIRMAN LAWTON: We're back in session.

18 MR. DEMERS: Thank you. And I would note  
19 that Mr. Grady has been present via a remote  
20 communications method. And to the extent that there  
21 may have been any interference, he will be provided  
22 with a complete transcript of the proceedings here  
23 today.

24 Mr. Chairman, I'd just ask you to please note  
25 for the record that there's been a quorum present

1 throughout this morning?

2 CHAIRMAN LAWTON: For the record, there's  
3 been a quorum present.

4 MR. DEMERS: Thank you.

5 Mr. Dyekman, your next witness?

6 MR. DYEKMAN: Thank you very much. I would  
7 call Britney Reddy.

8 MR. DEMERS: Ma'am, would you please raise  
9 your right hand.

10 BRITNEY REDDY,

11 Having been first duly sworn, testified as follows:

12 EXAMINATION

13 BY MR. DYEKMAN:

14 Q Please state your name and what your position  
15 is at Avanti.

16 A My name is Britney Reddy, and I'm the chief  
17 financial officer and the chief banking officer at  
18 Avanti.

19 Q What are your responsibilities with Avanti?

20 A My primary responsibilities are financial and  
21 bank operations management, including management and  
22 implementation of the bank core. I work closely with  
23 Avanti's chief legal officer and chief compliance  
24 officer, Chuck Thompson, on compliance and risk  
25 management.

The chief banking officer title is probably one that you guys are not familiar with, so let me explain a little bit to ensure that questions are directed appropriately.

Our chief operating officer, Zev Shimko, has a digital asset background. My responsibilities will include the oversight of capital liquidity, financial management and reporting, bank operations, oversight of customer on-boarding and customer service in connection with Chuck Thompson, physical -- physical security, implementation and oversight of internal controls, internal audit, and risk management.

Compare those with the responsibilities of chief operating officers Zev Shimko, which he will describe in more detail later, but will generally include business development, customer acquisition, product oversight, liquidity partner management, insurance, and capital raising and investor relations.

Q Could you please describe your professional background for the Board.

A Yes. Thank you.

I'm a Wyoming native. I attended the University of Wyoming for both my undergraduate degree in art and finance as well as a master's in science.

During my time at the University, I spent a

1 considerable amount of time with Professor Sherrill  
2 Shaffer, as many of you may know. Professor Shaffer  
3 taught me about regulatory structure and policy issues  
4 that the banks and financial institutions face from  
5 their operational time as a bank.

6 Professor Shaffer and I published my thesis,  
7 "The Effects of the Federal Reserve's Primary Credit  
8 Program," in the International Journal of Applied  
9 Economics. It was instrumental in my career.

10 I have worked in the Wyoming bank industry  
11 for a majority of my career. I began my career at  
12 Hilltop National Bank, and then I moved to First  
13 Interstate Bank, in the operations and mortgage lending  
14 division, before I moved to First National Bank of  
15 Wyoming as an officer.

16 In this role, I was responsible for reporting  
17 the bank's financials, preparing the audit information,  
18 supervising operations, and assisting in human  
19 resources. I worked closely with the bank information  
20 technology team and learned about the core in banking,  
21 in how to manage them and how to set them up directly.

22 I later moved to Cheyenne State Bank, where  
23 I've spent the majority of my career thus far. I  
24 managed all aspects of the bank, including regulatory  
25 management, shareholder management, corporate

1 governance, budget, information technology, compliance,  
2 PSA, reserves for loan loss, in addition to managing  
3 both the loan and operational departments.

4 I have assist -- I have assisted in the  
5 development of four core platforms. I have managed two  
6 core conversions independently, both of which included  
7 a full network and a full website conversion in  
8 addition to the core. I have --

9 Q How did -- how did you get involved with  
10 Avanti?

11 A When Wyoming adopted its SPDI legislation,  
12 community banks, including the one I was managing, were  
13 receiving multiple calls from people in the digital  
14 asset industry looking to purchase a Wyoming bank.  
15 This was my first early exposure to digital assets and  
16 where I began my research on those who had the money to  
17 invest in Wyoming banks.

18 Having spent the majority of my career in the  
19 traditional bank world, I was ready for a chance to try  
20 something else. I left my position as CO of the bank  
21 and began working towards my appraisal license. I was  
22 contacted by a community bank and asked to assist in  
23 developing their internal control program and assist  
24 with regulatory oversight and financial management.

25 This ultimately led me to my bank consulting

1 company. Once I started a bank consulting company, I  
2 was contacted by many potential SPDI applicants. I  
3 began speaking with Albert and Amanda of the Wyoming  
4 Banking Division so I could learn more about the  
5 legislation and why there was a high demand for the  
6 charter.

7 I saw an opportunity to be involved and  
8 assist with safe and sound compliance for the banking  
9 activities. This was important to me, not only for our  
10 banking community but also because of Wyoming's  
11 significant investment in banks.

12 I was contacted by multiple potential  
13 applicants. I ultimately decided to contract with  
14 Avanti. After working with their team as a consultant  
15 for a short period of time, it became evident to me  
16 that their management team had the expertise in the  
17 aspects of digital assets, financial management, and a  
18 commitment to compliance that I required. That  
19 ultimately led me to join the Avanti team.

20 Q I interrupted you, I think, before you -- you  
21 had something else wanted to say about your  
22 background?

23 A Oh, no, that's okay. I was just going to  
24 mention that I had -- I was a certified technology  
25 officer, certified compliance officer, certified

1 commercial lender, and was working toward certification  
2 as an anti-money-laundering specialist. Thank you.

3 Q That's important. Thank you.

4 So let's talk about financial and risk  
5 management. Do you think the bank will be sufficiently  
6 well-capitalized in light of its business plan?

7 A Yes. Sufficient capital for a special  
8 depository institution, as many of you know, is not  
9 calculated on a traditional risk-based approach like  
10 we're used to. This is due to the inability for the  
11 banks to do loans and also because of the high liquid  
12 assets -- high liquidity investment restriction that's  
13 placed on the banks.

14 However, as a comfort mechanism, I personally  
15 have done risk-based capital calculations on our  
16 projected financials, and they would result in us being  
17 very well-capitalized for a traditional bank, in the  
18 event they were held to the same standards.

19 In addition, similar -- similar to a  
20 traditional bank, Avanti will have a capital  
21 contingency funding plan. If capital fell below an  
22 acceptable level, which would be the ongoing bank  
23 commitment, we would consider several measures,  
24 including -- including capital contingent funding,  
25 raising additional capital via a digital funding realm,

1 or investigating potential mergers and acquisition  
2 opportunities. The capital contingency plan will be  
3 reviewed and, of course, approved by the board of  
4 directors annually.

5 Q What are the biggest risks for Avanti?

6 A Avanti's motto is "Security and compliance  
7 first," and we take that seriously for good reason.  
8 Avanti does not have a credit or interest rate risk  
9 like traditional banking has. We have different risks,  
10 mainly operational and technological. Our greatest  
11 risks will be operations, technology, and compliance.

12 Q Could you describe the operational risks,  
13 please.

14 A Operational risks. Operational risks in  
15 banking is a risk of loss from inadequate, failed  
16 systems, internal controls, policies, and procedures.  
17 Due to the nature of Avanti's business plan, the  
18 operational risk is high. However, it can be  
19 mitigated.

20 Our team, which includes our directors and  
21 advisers, have extensive experience in internal  
22 controls, procedures, and creating reliable systems.  
23 Risk assessments have already begun at our institution  
24 and will continue as operation is built out.

25 Our employees will be fully trained prior to

1 beginning work, and we will also require continuous  
2 training and monitoring to ensure policies and  
3 procedures are being adhered to. All systems and  
4 accounts will be monitored and tested on an internal  
5 schedule to ensure that no system is producing error.

6 Q What are the technology risks?

7 A Technology risk, as for any bank or  
8 technology company, is high and requires constant  
9 monitoring, training, and proper controls. This will  
10 ensure that Avanti's systems are protected  
11 appropriately from a cyber event.

12 Bryan Bishop, our chief technology officer,  
13 will go into more detail on our information technology  
14 risk mitigation. However, our plan encompasses  
15 rigorous testing, dual control, audit, and education.

16 Q Could you please discuss compliance risks.

17 A Compliance risks. We'll be operating in a  
18 space where regulations and customer -- customer  
19 expectations are changing radically. In some cases,  
20 like the travel rule, the application of the legal  
21 requirements for the digital asset space are not clear.

22 The digital asset space creates a compliance  
23 risk which heightens the already high compliance risks  
24 that a traditional bank copes -- that a traditional  
25 bank faces.

1                   Chuck Thompson, our chief compliance officer,  
2 will have some more detail. However, our team has the  
3 knowledge and experience in both digital asset and  
4 traditional banking. We work -- we work closely  
5 together and track evolving legal developments and best  
6 practices, and we are well-positioned to manage the  
7 compliance risks.

8                   Compliance risks will be mitigated through  
9 internal controls, clear accountability, separation of  
10 duties, training, and audit.

11                  Q      Will Avanti be engaging an external auditor?

12                  A      Avanti will be engaging an external auditor.

13                  The auditor, at a minimum, will provide an annual audit  
14                  in accounting, finance, compliance, Bank Secrecy Act,  
15                  or BSA, information technology or IT.

16                  Other audits, and the frequency of audits,  
17                  can be adjusted by the Board's audit committee.

18                  Q      So how does Avanti differ from a traditional  
19                  bank?

20                  A      In lots of ways, Avanti differs from a  
21                  traditional bank. All of them, you would know as the  
22                  ones that I've gone through so far.

23                  Our employee mix. Our employee mix is going  
24                  to be significantly different. A traditional bank has  
25                  a significant investment in customer-facing personnel,

1 however personal bankers run their operations.

2 Avanti intends to be largely remote and --  
3 and customer support will primarily be its technology.  
4 A majority of Avanti's employees will be technology  
5 focused, and they will have platforms that will support  
6 their customers. Our employees will be largely remote  
7 and will have limited customer contact.

8 With that said, we will have our headquarters  
9 in Cheyenne, and that office will be used for meeting  
10 by appointment and will not be open to walk-in  
11 customers like a traditional bank.

12 Internal controls will be different.  
13 Mitigating risk through internal controls is something  
14 that is on the mind of all bankers. Many of the  
15 internal controls and subsequent audits in a  
16 traditional community bank revolve around checking to  
17 ensure the appropriate dual control procedures are in  
18 place and are being followed by the employees.

19 Avanti will have the same mitigation.  
20 However, many of the dual controls will involve a  
21 technology component, involving the customer and then  
22 subsequently check by an employee. There will be a  
23 higher focus on technology in dual control and  
24 segregation of duties and roles than a traditional  
25 bank.

1 Avanti's customers will now have access to  
2 funds connecting in as many ways as are available to  
3 customers of a traditional bank. Avanti intends to  
4 allow its customers to transact wire transfers  
5 initially and then will move to the automated  
6 clearinghouse, or ACH, transactions within the first  
7 year.

8 Avanti will have cashier's checks for limited  
9 use. However, it is not intending on allowing  
10 customers to have checks, cash, or debit card  
11 transactions on any of their accounts.

12 Avanti will not provide FDIC insurance  
13 coverage for its customers. Instead, we will be a  
14 fully reserved institution. I will note that we may  
15 consider adding FDIC insurance in the future, as  
16 Wyoming statutes does make it optional for  
17 special-purpose depository institutions.

18 Due to the fee-based nature of Avanti, we  
19 will not be offering interest income on any customer  
20 deposits. Overall, Avanti will not have the credit  
21 risk that more traditional banks have, but arguably  
22 will have greater operational and business risks, due  
23 to the nature of its business and the rapidly changing  
24 space that it's in.

25 Q So how will you manage your balance sheet and

1 liquidity risks?

2 A For operational risk reasons, we plan to take  
3 a conservative approach to our balance sheet.

4 Initially, until customer behavior is known, we intend  
5 to keep a majority of our funds at the Federal Reserve  
6 of Kansas City.

7 This simple balance sheet reduces the  
8 complexity of liquidity management and diminishes the  
9 risk of Avanti's Fed master account becoming overdrawn.  
10 We will manage liquidity via a GAAP analysis, and we  
11 will monitor customer behavior to determine what we are  
12 able to invest and what we need to keep on hand at the  
13 Fed master account.

14 We will only invest in highly liquid assets  
15 which are detailed in the statute. Also, due to  
16 transactional risk with this type of transaction, which  
17 was brought up earlier, and we will -- we'll begin  
18 operating on automated clearinghouse, or ACH. We will  
19 establish a traditional risk reserve, which will ensure  
20 no checking accounts or overdrafts could cause a  
21 temporary loan to resolve or have happen.

22 Q In your view, what are the key drivers of  
23 Avanti's financial success?

24 A As a state-chartered bank that is prohibited  
25 by Wyoming law from making loans with customers' fiat

1       deposits, our business plan and revenue model are  
2       primarily fee-based.

3                   Our financial success requires that we grow  
4       assets under custody and grow assets on deposit, and  
5       growth in volume dollars, both digital assets and in US  
6       dollars.

7                   We need the ability to adapt quickly, because  
8       we are in an environment that has a quickly changing  
9       market. We will have to maintain our margins and fee  
10      schedules management. We also need to manage our  
11      expenses.

12               Q       Do you think the bank has a reasonable  
13      prospect of being sustainable and to be operated in a  
14      safe and sound manner?

15               A       Yes. Our projections show that Avanti can be  
16      profitable by year two, and our business model promotes  
17      a safe and sound financial institution.

18                   As I said, we will have to manage  
19      operational, technology, and the compliance risks. We  
20      will mitigate these risks with internal controls,  
21      testing, and audits.

22                   Risks that will require further -- further  
23      mitigation, such as cybersecurity, we will ensure with  
24      the appropriate insurance. Zev Shimko, our chief  
25      operating officer, will discuss more detail with you

1 later.

2                   We have experienced personnel that will  
3 oversee risk management needs in these areas.

4                   Q        We did discuss this previously, but the  
5 business plan references a lending product. For the  
6 record, how is it possible for a nonlending special  
7 purpose depository institution to say that it will  
8 engage in any of lending?

9                   A        The Wyoming statutes 34-29-104,  
10 subsection (k), allows the Wyoming SPDI banks to engage  
11 in digital asset lending, but only as the trust  
12 customers direct Avanti to lend customers' digital  
13 assets on the customers' behalf. We do not intend for  
14 this to be a launch product for Avanti.

15                  Q        How do you plan to staff the bank operations  
16 department?

17                  A        I believe I -- I anticipate needing bank  
18 operations professionals in addition to the compliance  
19 department. These individuals will begin working at  
20 Avanti prior to opening.

21                   I will seek professionals with technology,  
22 risk management, or bank operations experience. These  
23 individuals will begin in a variety of bank operational  
24 or financial duties and all of -- as all personnel with  
25 Avanti, will need a strong understanding of technology.

1 Q Do you intend to operate an office in  
2 Cheyenne?

3 A Yes. We intend to office -- operate an  
4 office in Cheyenne. However, this office will look  
5 very different from a traditional bank. The office is  
6 merely a location that will support staff and a  
7 potential of holding customer meetings.

8 We intend to have five to fifteen employees  
9 at this location. Three of them, we expect to be an  
10 executive of Avanti's, as two are required by Wyoming.

11 Q Do you plan to store any customer cash  
12 on-site?

13 A No.

14 Q Do you plan to store any digital assets  
15 on-site?

16 A No.

17 Q What type of security do you intend to have  
18 for the facility?

19 A We will have security features similar to  
20 that of a traditional bank, including alarms and  
21 cameras.

22 Q How do you plan to manage third-party  
23 vendors?

24 A Yes. Our vendor management policy has been  
25 included in the documents. It sets out how we manage

1 key risks presented by third-party vendors, including  
2 strategic, reputational, operational, credit,  
3 information technology, and compliance risk.

4 All vendors are classified either as --  
5 either as critical, significant, or low-risk, depending  
6 on factors such as: whether they are involved in  
7 essential functions of Avanti; whether their failure or  
8 nonperformance could cause Avanti significant risk;  
9 what impact they have on our customers; and how  
10 difficult it would be to replace the vendors.

11 Following the vendor management risk  
12 assessment, we will -- we will conduct comprehensive  
13 due diligence, which will focus on the vendors'  
14 financial condition, market history, relevant  
15 experience, knowledge of the applicable laws and  
16 regulations, reputation, and the scope of -- and  
17 effectiveness of its operations and controls.

18 Q What's the current status of Avanti's core  
19 banking vendor selection process?

20 A We have been evaluating potential core  
21 vendors since March of 2020. Our team has selected two  
22 final candidates, and we are working toward the final  
23 solution.

24 Q Do you intend to apply for FDIC insurance?

25 A We do not intend to apply for FDIC insurance.

1 We opt -- we may opt to in the future.

2 Q Do you intend to apply for Fed membership?

3 A We have conveyed to the Federal Reserve Bank  
4 of Kansas City, we intend to apply for Fed membership  
5 in the future. Our timing for Fed membership will be  
6 determined by our discussion with the Federal Reserve.

7 MR. DYEKMAN: Thank you very much. Ms. Reddy  
8 is available for cross-examination.

9 MR. DEMERS: Mr. Chairman?

10 EXAMINATION BY THE BOARD

11 CHAIRMAN LAWTON: Sorry. Thank you for the  
12 presentation.

13 I guess my question is, why -- how critical  
14 it is that the FDIC is not present?

15 MS. REDDY: We don't -- we don't feel that  
16 our customers will benefit from FDIC insurance  
17 coverage. The full reserve, essentially, the customers  
18 have the same -- the same coverage with Avanti instead  
19 of the FDIC. So we do not believe that the FDIC  
20 insurance coverage will be required.

21 However, the Fed membership. We elect that  
22 as one of the partnerships, the Federal Reserve Bank of  
23 Kansas City, although it's not necessarily critical to  
24 our operations. However, we do have another step of  
25 general management and compliance and creating a

1 partnership as well.

2 CHAIRMAN LAWTON: A little different topic.

3 It's a pretty significant job that you have. So I  
4 assume a lot of outsource for different systems which  
5 you're putting in place, audit --

6 MS. REDDY: Yes. We will be outsourcing  
7 audits.

8 CHAIRMAN LAWTON: Will that continue going  
9 forward?

10 MS. REDDY: Yes. We will have an external  
11 auditor.

12 CHAIRMAN LAWTON: Okay. Not just in audit  
13 but from other areas, I assume.

14 MS. REDDY: Correct.

15 CHAIRMAN LAWTON: Okay. Thank you.

16 MR. DEMERS: Mr. Rife?

17 MR. RIFE: No questions.

18 MR. DIXSON: Thank you for your testimony. I  
19 have one question. Maybe just one.

20 Can you talk about just the mechanics of the  
21 lending that you were referring to earlier and maybe  
22 cite an example?

23 MS. REDDY: I will be citing an example to  
24 our chief operations officer, Zev Shimko. He's more  
25 familiar with -- in the marketplace, where that is

1 available.

2                   But essentially, you know, we will be acting  
3 on our customers' behalf. So if our customer opts to  
4 want to lend its digital currency to another  
5 individual, we're going to provide them the mechanism  
6 to conduct that transaction. But we are never going to  
7 be the lender of record.

8                   MR. DIXSON: Just to follow up. So that can  
9 be a loan to an individual or -- or an institution of  
10 that -- of your customers' choice, correct?

11                  MS. REDDY: Correct.

12                  MR. DIXSON: Okay. Thank you.

13                  MR. JENSON: Thank you, Britney.

14                  The first question is: One risk the business  
15 plan noted on page 92 is the business's sensitivity  
16 analysis, specifically to the sensitivity of bitcoin  
17 volatility. If there's anything I know about bitcoin,  
18 it's been proven over the last two years to be highly  
19 volatile.

20                  Would you expand on the impacts of bitcoin  
21 volatility in both an up market and a down market on  
22 financial revenues, or projected financial revenues, of  
23 Avanti, please?

24                  MS. REDDY: Yes. I'll expand on that at a  
25 high level, and Zev Shimko is more familiar with the

1       volatility of bitcoin and how that's going to interact  
2       with our customer behavior, and he helps perform that  
3       sensitivity of market risk, so we can defer any further  
4       questions to him.

5                   Obviously, as our customers are -- you know,  
6       our deposit platform is going to be directly tied to  
7       the bitcoin, and our income will be associated with  
8       that. We have created a bear -- a base of a bear case  
9       and a bull case, and in all scenarios, we have the  
10      financial capacity to -- to manage that volatility.

11                  So further questions for that, though, would  
12      be better suited for Zev Shimko.

13                  MR. JENSON: All right. Thank you. And one  
14      more question. I'm sorry. I'm buried in the details.

15                  MS. REDDY: No --

16                  MR. JENSON: But Avanti is not a typical bank  
17      with a normal net interest margin, which we are  
18      rate-sensitive, obviously.

19                  MS. REDDY: Right.

20                  MR. JENSON: It's more fee-sensitive. And  
21      yet a large part of the business plan revenue is based  
22      upon fees, and some assumptions, such as transactions  
23      for five in-and-out transactions per account per year.

24                  My question is: Being a new bank, where did  
25      those assumptions come from? Are they reasonable? And

1 is there any supporting information to support the  
2 transaction volume from which the fees would be  
3 derived?

4 MS. REDDY: Yeah, those -- those assumptions  
5 came from other market participants, obviously not  
6 banks, but other people that are dealing in the digital  
7 asset space. We also looked at some financial  
8 institutions that assist in managing digital assets.  
9 So there was extensive market research that was  
10 completed.

11 And that was completed by Zev Shimko, so he  
12 would also be better. Any of the digital assets -- so  
13 I've focused mostly on the traditional basing and  
14 making sure that we meet with the traditional banking  
15 requirements; however, ensuring that we meet the market  
16 demands for digital assets and the correlation and how  
17 that's going to work with the financial side, that's  
18 better suited for Zev Shimko.

19 MR. JENSON: If I may, considering that  
20 you're the traditional banker and this business is not  
21 going to derive a lot of income, and yet you're  
22 responsible for the financial reporting and everything,  
23 how are you going make that work where somebody over  
24 here is kind of a profit center, and you're running the  
25 banking center, and -- I mean, the reporting and that?

1 Please address that a little bit.

2 MS. REDDY: So the reporting is going to set  
3 up to more of a traditional banks. Zev's not  
4 necessarily going to be responsible for the reporting  
5 of the financials or the management of the financials  
6 or how things stay adhered to GAAP or regulatory  
7 management. However, he is responsible for  
8 establishing products and customers and looking at  
9 market conditions to see the demand for those, which is  
10 based upon our production.

11 MR. FRANCE: Thank you for your testimony. I  
12 just have one question.

13 You talked a little bit about customers not  
14 having access traditionally to their funds in the  
15 manner that a traditional bank would typically have.

16 Can you address kind of funds availability,  
17 reg CC? How do you manage that if they don't have  
18 necessarily those types of traditional access to those  
19 funds?

20 MS. REDDY: Yes. That's something that we've  
21 talked quite a bit about, reg CC and funds ability,  
22 especially when we turn on that consumer light switch.

23 So that's a big cashier's check, right? So  
24 we -- we added the cashier's check to those components  
25 so that the customer does not necessarily need to have

1 another financial mechanism to transfer the money to  
2 gain access to it. So that would be where we would  
3 utilize the funds availability.

4 CHAIRMAN LAWTON: Britt.

5 MS. SHARP: So I'm trying to wrap my head  
6 around a little bit. You talk a lot about the fee  
7 structure, but then you also talk about the customer  
8 base.

9 If competition enters into the market, how do  
10 you differentiate yourself, because that fee structure  
11 or that expense management is such a vital piece to the  
12 operations of the business? If competition comes in,  
13 what happens?

14 MS. REDDY: Well, that's an issue with every  
15 bank, right? So competition always comes in, and we  
16 will adhere to trying to ensure that we have the  
17 appropriate legal structure, the appropriate security  
18 in place, and then the appropriate customer service so  
19 that our customers would -- they would respond to.

20 MR. SORENSEN: No questions.

21 MR. DEMERS: Any further questions from the  
22 Board?

23 Mr. Dyekman, any more questions for this  
24 witness?

25 MR. DYEKMAN: Nothing further.

1 MR. DEMERS: Could you please call your next  
2 witness.

3 Thank you, ma'am.

4 MS. REDDY: Thank you.

5 MR. DYEKMAN: I'll ask Charles Thompson to  
6 switch seats.

7 CHARLES THOMPSON,

8 having been first duly sworn, testified as follows:

9 EXAMINATION

10 BY MR. DYEKMAN:

11 Q Please state your name and your position with  
12 Avanti.

13 A Hi. My name is Charles Thompson. So most  
14 people call me Chuck, at least to my face. I am the  
15 chief compliance officer and the chief legal officer of  
16 Avanti. I also serve as secretary to the board of  
17 directors.

18 My responsibilities include legal and  
19 financial risk identification, analysis, and  
20 mitigation, the creation and maintenance of robust  
21 compliance policies and procedures, the management of  
22 legal matters, and ensuring that Avanti's strict  
23 adherence to applicable laws and regulations, and  
24 overseeing statutory filings, such as licensing forms,  
25 et cetera. As Britney previously noted, we work

1 closely together on compliance and risk management  
2 matters.

3 Q Could you please describe your professional  
4 background.

5 A Sure. I have a relatively broad-ranging  
6 background in law, technology, and finance. I spent  
7 about two decades of my career at law firms. I was a  
8 transactional lawyer at one of the world's preeminent  
9 law firms during much of that time.

10 I practiced in a couple of areas, including  
11 corporate finance and structured finance, practice  
12 areas that require a fundamental understanding of a  
13 wide variety of legal specialties, including banking,  
14 tax, pension regulations called employment retirement  
15 income securities act, or ERISA, security laws, and  
16 other regimes.

17 I am a member of the bars in Illinois and New  
18 York, I have been admitted before the US Supreme Court.  
19 I'm also in the process of obtaining admission to the  
20 Wyoming bar.

21 I believe that this broad background is a  
22 helpful foundation for a role as a chief legal officer  
23 of a regulated institution.

24 I've also held positions at several large  
25 financial institutions, both in in-house legal roles as

1 an associate general counsel at each of Morgan Stanley  
2 and Assured Guaranty corporation and business role,  
3 particularly in new product development at Bank of  
4 America.

5                   And that role in particular is interesting,  
6 in that basically what we did was take existing  
7 products, as new rules and regulations were rolled out,  
8 to modify them in order to make them compliant with  
9 those new laws and regulations. So, you know, just a  
10 lot of work going on here in this area in Wyoming.

11                  In all of these roles, I have worked  
12 extensively for highly regulated financial  
13 institutions. I've dealt with a large number of  
14 Federal and state regulators, and a common denominator  
15 in all of them has been focusing on identifying and  
16 mitigating risks.

17                  I spent much of my career in areas where  
18 regulations were evolving, for example, in Oxley,  
19 Dodd-Frank, Volcker, et cetera, in helping some of the  
20 world's leading financial institutions develop  
21 compliance business strategies for these evolving  
22 regulatory regimes.

23                  On the technical side, I've always been a bit  
24 of a geek. I'll share an anecdote here, which I think  
25 is applicable for the year 2020.

1                   At the law firm that I spent most of my  
2 career at, I spent a lot of time doing work in the  
3 Investment Company Act area. So I would provide  
4 presentations and training for large numbers of people.

5                   During one of these live presentations, going  
6 through slides, and my mentor, unbeknownst to me, had  
7 included an extra slide. So I put the slide, and  
8 there's a picture of a geek.

9                   And I sort of stopped, because I had no idea  
10 what was going on, and he jumped in and he said, You  
11 know, nobody knows it, but the original definition of a  
12 geek is a circus guy who would bite the heads off of  
13 bats.

14                   The point being, in that circumstance, that,  
15 you know, we wanted people to come to us early on with  
16 problems they identified or transactions that they were  
17 working on so that we could, you know, help them solve  
18 their problems, or we would bite their head off.

19                   Fortunately, I'm not that kind of a geek to  
20 bite the heads off of bats, but I did start following  
21 bitcoin in 2011, and I generally became interested in  
22 digital assets in the following years.

23                   In 2016, I decided to leave private practice  
24 to establish a consulting firm focused on the  
25 intersection of enterprise blockchain, financial

1 services, and regulation.

2 In that capacity, I worked with a number of  
3 different entities, ranging from startups to at least  
4 one Fortune 100 company. I helped these clients  
5 establish policies and procedures to address regulatory  
6 requirements, including BSA programs and other policies  
7 and procedures applicable to regulated financial  
8 institutions.

9 My interest in this emerging technology  
10 eventually led to my serving as the chief compliance  
11 officer of LedgerX, a bitcoin futures options and swaps  
12 exchange, technically a swaps execution facility and a  
13 derivatives clearing organization, headquartered in New  
14 York City and regulated by the US Commodities Futures  
15 Trading Commission, or the CFTC.

16 In my role as chief compliance officer at  
17 LedgerX, I developed legal and regulatory compliance  
18 programs for the first platform approved in the United  
19 States for trading and clearing swaps and options on  
20 cryptocurrencies, including the development of a  
21 comprehensive BSA and AML compliance programs.

22 Both the development and the implementation  
23 of that program and the underlying BSA/AML requirements  
24 was done in a novel context, similar to the SPDI  
25 context here in Wyoming.

1                   At LedgerX, I also worked closely with the  
2 engineering team to develop and implement a proprietary  
3 real-time surveillance system for the trading engine  
4 that LedgerX had developed. And this is similar to the  
5 working relationship that we had here at Avanti, where  
6 Britney, I, and others worked very closely with the  
7 engineering team to ensure that what is being built  
8 from a technical perspective fits within the regulatory  
9 framework within which we operate.

10                  And of course, I worked, you know, very  
11 closely on a daily basis with our primary regulator at  
12 the CFTC.

13                  Q        When and why did you join Avanti?

14                  A        I joined Avanti earlier this year. There are  
15 many reasons that I joined.

16                  I believe strongly that the current system of  
17 banking can be improved significantly due through  
18 compliant integration of digital assets. There are a  
19 number of great companies focusing on digital assets --  
20 maybe some bad ones too -- but there are at least an  
21 equal number that have been developed from the ground  
22 up by technical individuals with incredible  
23 technological skills, but with little or no  
24 understanding of the enormous amount of legal and  
25 compliance requirements necessary to protect the system

that they have and are creating.

Regulators around the world have, in my opinion, have been rightfully circumspect in their adoption of this new technology. Wyoming has spent an enormous amount of time to develop legal and regulatory infrastructure necessary to enable the first truly regulated digital asset platforms, and Avanti has the right group of talented people at all levels to make Wyoming proud.

I think that in the long term, what is happening here in Wyoming will ultimately create opportunities where they don't exist today and in ways that we cannot yet even fathom. And being in partnership of that watershed moment is very compelling to me.

You know, finally, I've known -- as Caitlin mentioned earlier, I've known her for several years. I've also known Bryan for several years. I happened to be in New York at the end of last year, and through a mutual connection, you know, he suggested, Reach out to Caitlin. She's doing something. So I did.

That resulted in me flying out here to Cheyenne and meeting with Caitlin. At that point, I also met Britney, and you know, everything just fell into place really quickly for me once I had, you know,

1 a full understanding of what she was trying to do. And  
2 then -- and you know, knowing Bryan and Britney, and I  
3 just knew that the team that Avanti was building would  
4 be destined for success.

5 I'm a firm believer that management is the  
6 best predictor of success as a startup, and I think  
7 having these pieces in place made my decision to join  
8 Avanti very simple.

9 Q Could you provide an overview of what's  
10 planned for Avanti's compliance function.

11 A Yes. As the chief compliance officer, I  
12 will, of course, be ultimately responsible for all  
13 compliance-related aspects of the business.

14 However, in achieving this goal, I will work  
15 closely with and draw on the extensive operational risk  
16 management experience of our chief banking officer,  
17 Ms. Reddy, as well as our BSA officer.

18 Our BSA officer is Erin Young, who will be  
19 based in Cheyenne. While she is scheduled to testify  
20 later today, in the interests of time, we may not call  
21 her. So I will provide you with some of her background  
22 here.

23 Erin has over six years of BSA/AML  
24 traditional experience in traditional banking. She is  
25 a certified community bank compliance officer and a

1 certified bank internal auditor, via the independent  
2 community bankers association, and a certified risk  
3 management specialist via the American Bankers  
4 Association. She is also close to obtaining her  
5 anti-money laundering specialist certification through  
6 ACAM, the association of anti-money laundering  
7 specialists.

8 She's most recently served in the BSA/AML  
9 position at a community bank in Cheyenne. She has  
10 extensive experience with traditional BSA policies,  
11 procedures, and software.

12 Ultimately, I think, the compliance apparatus  
13 at Avanti will be driven by the volume of transactions  
14 and the number of customers, and we will add additional  
15 people as and when necessary.

16 Q Could you provide a general overview of  
17 Avanti's compliance programs and policies?

18 A At Avanti, we have developed a suite of  
19 compliance policies and programs meant to ensure our  
20 stated focus on security and compliance first. These  
21 are meant to meet the strictest standards that our  
22 institutional investors are familiar with and expect in  
23 their dealings with banks.

24 This means that our compliance programs will  
25 support compliance with all applicable Federal and

1 State regulations, and we will voluntarily incorporate  
2 certain financial regulatory frameworks as industry  
3 best practices pertaining to customer disclosures,  
4 regulatory reporting, and information and security  
5 standards, to name a few.

6 Additional systems specific to the needs of  
7 the digital asset industry will include blockchain  
8 analysis and monitoring tools. I know that you guys  
9 all received electronic copies of what's in the binder  
10 in front of you, but I want to just highlight some of  
11 the programs and policies we maintain.

12 First, the AML program, which is focused on  
13 making sure we have sufficient information about our  
14 customers and their activity on our platform.

15 Second, the privacy policy and information  
16 security policy, each of which is designed to ensure  
17 that Avanti protects customer data, that Avanti has  
18 procedures to prevent or minimize any potential data  
19 breaches, and that Avanti provides customers with  
20 choices about collection of non-AML-related  
21 information.

22 Third, the risk management policies, which  
23 includes guidelines approved by our board of directors,  
24 designed to help the bank identify, mitigate, and  
25 manage various risks, including insurance coverage.

1                          Fourth, the vendor management policy, which  
2 covers due diligence and ongoing monitoring of our  
3 vendors.

4                          Fifth, internal controls policy, which is  
5 meant to ensure our controls are effective and  
6 comprehensive, independently reviewed, and updated,  
7 based on risks that we face.

8                          Sixth, the conflicts of interests and code of  
9 ethics policy and an insiders activity policy, designed  
10 to prevent both the existence and appearance of the  
11 existence of any breach of fiduciary responsibility or  
12 customer trust or any conflict of interest.

13                         And lastly, the unfair, deceptive, or abusive  
14 acts or practices policy, commonly known as UDAP, which  
15 is meant to ensure that all of customer financial  
16 products or services are fair and reasonable.

17                         Q         Could you provide an overview of the key  
18 components of the anti-money-laundering compliance  
19 program that Avanti will maintain.

20                         A         Yes. Our anti-money-laundering program will  
21 likely be familiar to many of you from your own banking  
22 experience. But of course, we will be incorporating a  
23 component for digital assets as well.

24                         The program elements include the  
25 anti-money-laundering policy, which has been provided

1 to the Board for this hearing; procedures and controls  
2 to implement the anti-money-laundering policy,  
3 including a customer identification program and a  
4 know-your-customer process; transaction monitoring;  
5 suspicious activity report filing; and sanctions  
6 screenings.

7 The program includes a designated BSA  
8 officer, Erin Young, who I just introduced. We will  
9 have foundational and ongoing training for the BSA  
10 rules and regulations. We'll have independent audit  
11 and testing. And we will have board reporting on the  
12 AML program, including to a BSA/AML Board committee.

13 Q Could you give a little more substance to the  
14 description of the customer identification program and  
15 know-your-customer process, please.

16 A Yes. So prior to being allowed to access my  
17 portion of the Avanti ecosystem, a potential customer  
18 will be required to satisfy our compliance screening.

19 Customers will be required to provide basic  
20 customer identification program identifying  
21 information. We will screen against the Office of  
22 Foreign Assets Controls, or the US Department of the  
23 Treasury, or OFAC, and other government lists, and  
24 we'll use traditional screening and risk management  
25 software vendor to help us achieve this.

1                   We will assign a risk rating to each  
2 potential customer, and depending on that rating, the  
3 customer will either be able to open the account  
4 online, or that account will be flagged for further due  
5 diligence.

6                   If we cannot establish the required  
7 information, or if a potential customer is flagged by  
8 our sanctions screening, we will not open an account  
9 for that customer. Only parties who are Avanti  
10 customers may redeem or be issued Avit or otherwise our  
11 fiat on- and off-ramp services.

12                  Q        You mentioned the Office of Foreign Asset  
13 Control. Could you describe how you'll comply with US  
14 sanctions requirements.

15                  A        OFAC screening will be done at account  
16 opening, when completing a wire or ACH transfer, and  
17 anytime a customer redeems an Avit. A scan of Avanti's  
18 entire customer database will also be done anytime an  
19 OFAC list is updated.

20                  Any attempted transaction that we identify  
21 with someone on an OFAC list or residing in an  
22 OFAC-prohibited area or as -- or a transaction that  
23 involves a blockchain address that has been highlighted  
24 by OFAC will be blocked.

25                  Q        Will you file suspicious activity reports?

1           A     Yes. The BSA officer will file suspicious  
2 activity reports when any number of predefined  
3 thresholds are crossed.

4           Q     What about cursory transaction report filing?

5           A     Well, as Avanti -- our business plan, at this  
6 point, we don't intend to be handling any cash  
7 transactions. So we will be exempt from that  
8 requirement. But if, in the future, Avanti decides to  
9 transact in cash, then of course, Avanti will fill all  
10 requirements of completing and submitting currency  
11 transaction reports.

12           Q     Could you describe any third-party services  
13 Avanti will utilize for AML or OFAC compliance?

14           A     Sure. We intend to engage various  
15 third-party vendors to assist in BSA, AML, and fraud  
16 monitoring. One of those vendors will assist us on the  
17 traditional core banking side, and one or more of those  
18 vendors will assist us in the digital asset custody  
19 side.

20                   Caitlin earlier, in her testimony, mentioned  
21 the Twitter hack, so I won't cover that in detail  
22 again. But I do want to just highlight how impressive  
23 the digital asset analytics are, for those of you who  
24 haven't the opportunity to -- to see them or, you know,  
25 utilize them in action.

1                   They -- the amount of data and the rapidity  
2 with which they obtain the data and the ability to, you  
3 know, follow assets both backwards in time and, you  
4 know, as something happens after, at least, our -- you  
5 know, Avanti's platform is truly impressive, and I  
6 think it's -- it's something that is not necessarily,  
7 you know, capable of being done in the cash world,  
8 right, because cash leaves, it's gone. You can't --  
9 you don't have any way of tracing, like we do a digital  
10 asset.

11                  I would also mention that the travel rule  
12 that FinCEN is implementing in -- which is required for  
13 compliance in June of 2021, will require that we  
14 provide certain data to various counter-parties with  
15 whom we transact, and we'll also be receiving that --  
16 that data from other counter-parties that are on the  
17 inbound side.

18                  So the amount of data that we will be getting  
19 on the digital asset analytics side is very impressive.  
20 And I would say that, you know, we're -- we're in talks  
21 with very well-respected computers in those spaces.  
22 I'm happy to go further into detail on all of that in  
23 executive session, if you would like.

24                  Q           What is your top anti-money-laundering and  
25 OFAC risks, and how will you mitigate those risks?

1                   A       Our business model insulates us from many of  
2                   the risks that are sometimes associated with digital  
3                   assets. Avanti is not an exchange and will not operate  
4                   a trading desk. We are a fee-based service provider  
5                   for digital assets, not a trading counter-party that  
6                   runs a proprietary trading business.

7                   While many digital assets have underlying  
8                   systems based on anonymity and psuedonymity, every  
9                   customer that we interact with will go through our  
10                   rigorous onboarding process. We will know who they  
11                   are.

12                   Also, our target customers are institutional  
13                   which carry lower AML risks, and many of them have  
14                   their own rigorous and regulated AML programs in place.

15                   There are certainly challenges based across  
16                   the industry in identifying digital asset  
17                   counter-parties of customers when those counter-parties  
18                   are, you know, quote, off platform. In other words,  
19                   when they -- when they've left your -- your wall  
20                   garden, particularly in those cases of counter-parties  
21                   operating through unhosted wallets, meaning that  
22                   they're -- they're not operating through a regulated or  
23                   institutional service provider.

24                   As I was previously mentioning, we will  
25                   employ state of the art tools from digital asset

1 analytics providers that have been developed by market  
2 participants aimed at identifying and preventing  
3 transactions with prohibited parties and any other  
4 transactions -- I'm sorry, any other illicit  
5 activities.

6                   And we intend to work closely with our  
7 regulator as we build out our risk-based rule sets for  
8 identifying transactions that require further scrutiny.

9                   In addition, we have already begun developing  
10 relationships with local law enforcement in Cheyenne,  
11 including the local FBI field office, and we stand  
12 ready to assist law enforcement as and when required.

13                   I can assure you that under my watch, Avanti  
14 will have in place, both in name and in function, a  
15 robust BSA program. Our goal is to strictly comply  
16 with each and every Federal and State rule and  
17 regulation applicable to us.

18                   MR. DYEKMAN: I have no further questions for  
19 Mr. Thompson.

20                   MR. DEMERS: Mr. Chairman?

21                   EXAMINATION BY THE BOARD

22                   CHAIRMAN LAWTON: Thank you.

23                   Just a quick question, and it's probably in  
24 here or you covered it. Non-US institutions or  
25 consumers?

1                   MR. THOMPSON: At launch, we intend to be  
2 US-only. So if there were a foreign institution that  
3 wanted to, you know, have a account at Avanti, we would  
4 require that they set up a US-based entity that we  
5 could then do screening.

6                   CHAIRMAN LAWTON: Okay. Thank you.

7                   MR. RIFE: Thank you, Mr. Thompson.

8                   Could you elaborate a little bit on my  
9 question earlier about the trust powers and where they  
10 derive from for this particular type of institution?

11                  MR. THOMPSON: Sure. The -- so I think I  
12 understand your question. Do you mean the -- so 13-12  
13 is an enabling regulation that -- pursuant to which  
14 Chapters 19 and 20 of the audit board's rules were  
15 promulgated.

16                  Chapter 5, I believe, or paragraph 5 of  
17 Chapter 19, has in the -- the provisions that we are  
18 intending to utilize as our, quote, trust powers.

19                  And I think, you know, the word "trust" might  
20 be a little bit of a misnomer here. The term in  
21 Chapter 19 is bailment, which is, you know, one of  
22 those words that nobody understands, right, has a very  
23 technical legal meaning.

24                  But what it does do is to allow us to -- you  
25 know, because you can think of it as co-check write.

1       We'll take possession of a digital asset but not  
2       ownership of that digital asset. So we're effectively  
3       acting as a trust -- I'm sorry, as a trustee, by  
4       holding that asset in bailment.

5                   So I believe that that's what, you know, what  
6       we're referring to when we're referring to our trust  
7       powers.

8                   MR. RIFE: Thank you.

9                   MR. DIXSON: I have no questions for  
10      Mr. Thompson. Thank you for your testimony.

11                  MR. THOMPSON: Thank you.

12                  MR. JENSON: Mr. Thompson, thank you. I've  
13       got to congratulate you guys. I noticed on  
14       September 15th, FinCEN issued a new final rule that  
15       reaches out and touches the state -- not Federally  
16       insured -- institutions. So you have definitely  
17       brought the interest at the national level. I  
18       congratulate you.

19                  With that said, and this is probably due to  
20       my lack of intelligence or understanding, I understand  
21       your on-boarding of a customer and BSA requirements,  
22       and that's easy.

23                  My questioning in the bitcoin world or the  
24       Avit world is, what about the customers or the -- your  
25       customer's payee? In other words, Joe is going to pay

1 Y.

2 I don't understand the AML issue about Y,  
3 because Y could be anywhere around the world. The  
4 customer -- customer doesn't slow the process down,  
5 that if you have to take a day or -- to verify Y, or it  
6 being Y, an individual. Can you explain to me the  
7 payee verification under BSA.

8 MR. THOMPSON: Sure. At a high level, the  
9 analytics software that I was alluding to earlier  
10 essentially does that for us. It's -- it takes a  
11 risk-based approach, right, based on the number of --  
12 of rules that we put into it. And again, we'll be  
13 working with regulators to develop those rules and  
14 determine, you know, what is and what's not acceptable.

15 But, you know, you can think of it from a  
16 risk-based approach, again, from zero to 10 -- I'm just  
17 making this up, but, you know, you might say that if --  
18 if Y is in a known tariff state, then the risk there is  
19 a 10, and so, you know, that session can't proceed.

20 But there's a whole bunch of, you know,  
21 different scenarios that fall between that, you know,  
22 very clear example and one that might be a little bit  
23 in more of a gray area. For example, somebody that's  
24 in the -- a withdrawal to a personal wallet, right,  
25 that has no data on watching, because it's never been

1 utilized before.

2                   So again, I think we're -- we've intending to  
3 utilize these digital asset analytics programs along  
4 with those rules -- risk-based rule sets to kind of  
5 determine whether or not we think that any given  
6 transaction on the outgoing side of things is -- is  
7 okay, you know, at minute zero or if it requires  
8 further scrutiny based on, you know, the -- like we  
9 said, the -- the set of rules, or if it's just an  
10 automatic no.

11                  And you know, a lot of that will be derived  
12 also from our -- knowing our customer and knowing what  
13 their, you know, history has been, just like your  
14 credit card, right? When you go in and use your credit  
15 card, your credit company develops a database of  
16 patterns of your credit card use. And if there's  
17 something that's outside of that, that norm, they might  
18 put a fraud flag on your credit card and not allow that  
19 transaction to go through.

20                  So you know, all of these things are going to  
21 be part of how we answer that -- that problem.

22                  MR. JENSON: Thank you. And then just a  
23 question.

24                  On your risk matrix assessment on page 22 of  
25 the business plan, I guess I was somewhat surprised to

1 see you rate OFAC/BSA as a moderate risk.

2                   In light of the recent Bitmex charges for  
3 civil and criminal activity against the executives, do  
4 you believe that the BSA risk is still moderate? Or do  
5 you stand by that?

6                   MR. THOMPSON: Well, let me just look at this  
7 page quick so I make sure I know exactly what you're  
8 talking about. You said page 22?

9                   MR JENSON: Page 22. It's under Regulatory  
10 Compliance, about in the middle of the table.

11                  MR. THOMPSON: Yes. So I think the -- this  
12 table is really derived from the fiat side of things,  
13 to be honest. And as we're building out the rule sets  
14 on our digital analytics system, the BSA and OFAC is  
15 definitely going to be not moderate risk factors.  
16 They're going to be, you know, closer to the 10 than  
17 the 5.

18                  And you know, with respect to Bitmex, you  
19 know, I have no personal knowledge of what happened  
20 there, so I can't really comment on that. But I will  
21 say that the -- the analytics provided that we are  
22 likely utilizing did have them as a moderate risk  
23 counter-party.

24                  And within, you know, hours of the  
25 allegations coming out, they were moved to a high-risk

1 counter-party. And what that means to us is, again, as  
2 you look at the whole mix of rules that are going into  
3 determining whether any transaction can proceed without  
4 enhanced due diligence, you know, that -- that high  
5 risk is going to probably kick in a higher due  
6 diligence, enhanced due diligence, and meaning that the  
7 transaction doesn't automatically proceed.

8 MR. FRANCE: I want to make sure I didn't get  
9 lost there.

10 So with respect to OFAC and blockchain,  
11 because there is a level of anonymity in the  
12 blockchain, if I understand correctly, how do you  
13 validate OFAC through blockchain?

14 MR. THOMPSON: Well, I think Bryan will be  
15 able to speak quite -- quite well to this question.

16 But it's not so much that you validate  
17 through -- through analytics. It's that OFAC sometimes  
18 puts in their risk blockchain addresses that have been  
19 identified as associated with people on the OFAC list.

20 So if you then have transactions that are --  
21 you know, have touched that address or otherwise, you  
22 know, interacted with it, then that would raise your --  
23 your, you know, overall risk level for the transaction.

24 MR. FRANCE: Okay. I don't have any other  
25 questions at this time.

1 MS. SHARP: I have no questions.

2 MR. SORENSEN: No questions.

3 MR. DEMERS: Any further questions from the  
4 Board?

5 MR. DIXSON: I have one additional. Thank  
6 you.

7 My question is related to BSA diligence and  
8 OFAC. Speaking of lending -- lending the digital  
9 currency.

10 What kind of -- what kind of diligence is  
11 done to the party receiving the loans, that digital  
12 currency loan, in making sure that it does comply with  
13 OFAC?

14 MR. THOMPSON: Well, anything that's going to  
15 touch the Avanti platform is going to go through our --  
16 our OFAC screening and the BSA screening that I was  
17 alluding to earlier.

18 So you know, we're not going to allow that  
19 platform where we're, you know, basically just doing --  
20 acting as a directed trustee. We're certainly not  
21 going to allow that platform to become something where  
22 people can then interact and transact with, you know,  
23 people, for example, on the sanctions book. So yes, we  
24 will be doing full vetting as if they were customers.

25 MR. DIXSON: Thank you.

1                   MR. DEMERS: Mr. Dyekman, any further  
2 questions for this witness?

3                   MR. DYEKMAN: No. Thank you.

4                   MR. DEMERS: Thank you, Mr. Thompson.

5                   Mr. Dyekman, do you want to call your next  
6 witness, please?

7                   MR. DYEKMAN: Yes. I'd call Bryan Bishop.

8                   (Witness sworn.)

9                   MR. DEMERS: And Mr. Dyekman, the chairman  
10 suggested that we may break for lunch after this  
11 witness. Do you have any idea as to which of the 15  
12 listed witnesses you intend to call at this time, or do  
13 you intend to parse the list at all?

14                   MR. DYEKMAN: Yes. We will shorten the list.  
15 We do still have some witnesses after this witness, but  
16 they will not be as long. So after this witness is  
17 probably a good time to have lunch.

18                   MR. DEMERS: Thank you.

19                   BRYAN BISHOP,

20 Having been first duly sworn, testified as follows:

21                   EXAMINATION

22                   BY MR. DYEKMAN:

23                   Q       Please state your full name and your position  
24 at Avanti.

25                   A       My name is Bryan Bishop. I am co-founder,

1 chief technology officer, and a director at Avanti. My  
2 role is mainly around software development, information  
3 security, information technology, and other aspects  
4 which I'll go into in a moment.

5 Q Could you tell the Board about your  
6 background, please?

7 A Of course. My background is in software  
8 engineering and computer programming. I've been doing  
9 that in some form or capacity for about two decades  
10 now.

11 I've touched all sorts of aspects of  
12 software, including desktop software, web development,  
13 mobile applications, competitive intelligence for  
14 advertisements, and also some software work related to  
15 biotech or bioinformatics. Much of this was through  
16 consulting and contracting.

17 Through those roles, I've also touched on  
18 security on both sides of the table, both on conducting  
19 security reviews where I thoroughly analyzed my  
20 client's code and looked for security problems and how  
21 they handle digital assets, for example. But then  
22 also, on the other side of the table, when I've worked  
23 for companies that have paid for penetration tests and  
24 other security technologies, and then receiving their  
25 reports, processing it, and ameliorating any problems

1 that they identified.

2                   Outside of software, I have a patent pending  
3 on a method of storing data on DNA molecules for  
4 high-density data storage. I have a modest number of  
5 academic publications, such as in the Journal of  
6 Nucleic Acids Research, which is a molecular biology  
7 publication.

8                   My work has been featured in a number of  
9 media outlets, such as CoinDesk, which is a digital  
10 asset specific publication, but also the New York  
11 Times, Wall Street Journal, MIT Technology Review,  
12 various podcasts, and forthcoming documentaries.

13                   I'll be zigzagging through my background just  
14 a little bit.

15                   So from 2014 to 2018, for four years, I was  
16 working for a company called LedgerX, which was  
17 previously introduced today. They were the first  
18 Federally regulated swap execution facility and  
19 derivatives clearing organization, which means they  
20 listed and cleared fully collateralized digital assets  
21 swaps and options. This was under the supervision of  
22 Commodities Futures Trading Commission, or CFTC.

23                   I was hired into LedgerX because of my  
24 expertise in bitcoin and also software development.  
25 One of my most interesting roles there, of course, was

1 in developing their custodial system for digital  
2 assets.

3 During my time there, and to my knowledge  
4 after, there was no theft or loss of digital assets  
5 from the platform that I built. But obviously, I no  
6 longer have any involvement since leaving in 2018.

7 I was interested in the mission of LedgerX  
8 because, at the time, I was actually reading about  
9 clearinghouses, and I was saying, This needs to exist  
10 for bitcoin, but also because, you know, at the time,  
11 bitcoin -- people involved in bitcoin didn't really  
12 talk about regulation or didn't think it was  
13 appropriate.

14 And I disagreed with that. I thought that  
15 there must be a way to introduce bitcoin into the  
16 mature, regulated financial industry. And so LedgerX  
17 presented me an opportunity to be involved in a -- in a  
18 venture that was focused on that. In some sense, I see  
19 a bank that focuses on digital assets as an extension  
20 of that mission, and so it was -- it was a welcome  
21 opportunity for me to switch from consulting to working  
22 for Avanti when that opportunity presented itself.

23 After LedgerX, I returned to consulting, as I  
24 just mentioned. For a time, I worked for a company  
25 called Blockstream, which is a bitcoin-focused startup

1 that has raised \$101 million in venture capital and for  
2 which many of the preeminent bitcoin developers have  
3 worked for. I was originally asked in 2014 to be a  
4 co-founder of their company, and I declined, instead,  
5 to continue at LedgerX.

6                   While there in 2018 and 2019, I was working  
7 on a piece of software for over-the-counter swaps of  
8 assets. I also worked for a number of other clients  
9 during this consulting period, such as a Hollywood  
10 entertainment startup as their part-time CTO.

11                   I performed code review and security review  
12 for digital asset custodian. I served as an advisor to  
13 a digital asset hedge fund. I advised a cryptocurrency  
14 project, that is, a project that had its own  
15 cryptocurrency. Served as an expert witness in  
16 blockchain-related matters, and many others.

17                   My point is, I build software. That's my  
18 focus.

19                   I also wanted to mention a little bit about  
20 my background with bitcoin. As you might know, bitcoin  
21 is not a company. It is a volunteer effort of  
22 open-source software.

23                   In January 10th, 2019, I was fortunate enough  
24 to receive one of the original emails from Satoshi  
25 Nakamoto, the pseudonym of the creator of bitcoin. At

1 the time, I read this email, and it was a time of  
2 stress in my life, and I objected to it, and my  
3 objection was, well, you know, this software only runs  
4 on Microsoft Windows, and I had to ask myself, is  
5 Microsoft really the future of money.

6                   What I failed to overlook was that bitcoin  
7 would actually resolve this problem, and now it runs on  
8 all sorts of numerous platforms. I couldn't even begin  
9 to list the whole list. So I was rather dismissive,  
10 and it wasn't until 2013 that I became more involved in  
11 bitcoin in particular and started to involved in  
12 bitcoin software development.

13                   I've been fortunate to work with other  
14 bitcoin developers on the bitcoin core project, which  
15 is the software that runs the bitcoin system, the  
16 network, the blockchain consensus rules.

17                   I do have a small amount of source code that  
18 I've contributed to that project. But also,  
19 participated in code review, giving them feedback about  
20 proposed changes to the network, and I've traveled the  
21 word to meet with them at their request. Had many  
22 conferences and technical presentations and private  
23 meetings that were private due to capacity. They  
24 didn't want, you know, a public record.

25                   I had a skill in producing transcripts. And

1 this is also why, recently, the University of Wyoming's  
2 Heritage Center has reached out to for help with  
3 archiving the history of bitcoin development. An  
4 article about my transcription efforts has actually  
5 appeared on nasdaq.com.

6 So specifically, I believe my background in  
7 all of these roles in software development will aid me  
8 as CTO of the bank, specifically. I previously worked  
9 in a regulated financial institution. I have expertise  
10 in digital assets. I have a software development  
11 background. And I've also built a secure custody  
12 platform in my past.

13 Q Could you describe your role and  
14 responsibilities as chief technology officer.

15 A Yes. So my role as CTO is to oversee and be  
16 responsible for the development of certain software  
17 that is not available off the shelf from, for example,  
18 core vendors. They do not sell digital assets  
19 software.

20 I'm also responsible for information security  
21 programs and leading an engineering team, managing and  
22 developing certain testing activities internal to, and  
23 I'm also helping to facilitate external reviews,  
24 external security review, and other related audit  
25 functions.

1                   More specifically, I also have extreme  
2 responsibilities relating to reporting to the Board,  
3 based off of certain regular assessments and  
4 information technology on an annual basis -- on at  
5 least an annual basis.

6                   As CTO, my philosophy is very hands-on. I  
7 get involved in the ongoing development activity. I  
8 work closely with the team under me. We have a focus  
9 on documentation, testing. We have testing  
10 environments that I can go into, in working through the  
11 strengths of my staff.

12                  Q        Is there an information technology budget for  
13 Avit -- or for Avanti, rather?

14                  A        There is for both. Yes.

15                  So I have been involved in the development of  
16 the financial projections. I signed off on them, with  
17 respect to my responsibility and the goals of the  
18 company as I understand them. I believe the IT budget  
19 is adequate for achieving the company's plan, and it  
20 also includes budget for the requisite penetration  
21 tests and external security reviews.

22                  Q        So from a technological standpoint, will the  
23 products and services that are listed in the business  
24 plan be available and ready to go when the company  
25 starts up and opens its doors?

1                   A     Right. So there are many products listed in  
2     our business plan, and we are not actually planning to  
3     require that all of them are ready to go in day one of  
4     opening our doors for business. So we do have a plan  
5     in place to stagger the release of these products as  
6     they're available and as they've been tested and fully  
7     developed.

8                   Q     How have the projects been prioritized?

9                   A     The projects have been prioritized based off  
10    of the -- based on a process where certain -- certain  
11    aspects of the business are just absolutely required.  
12    For example, the core absolutely must be in place and  
13    operational for this to open.

14                   And then in addition to that, in order to  
15    provide the Avit product, there must be digital assets  
16    in custody. So there's a bit of, you know, a dependency  
17    tree of certain requirements leading into others, and  
18    that's how we're able to determine which products need  
19    to be launched first.

20                   Q     Could you describe for the Board the  
21    engineering team that you lead.

22                   A     Yes. So I do lead an engineering team. We  
23    focus on software development and the technical  
24    operations of running Avanti.

25                   I have dedicated resources for back-end

1 development. One example of that, would be, for  
2 example, core integration, but also for front-end  
3 development, for example, user interface, what the  
4 users actually eventually see and use on a daily basis.  
5 And then, of course, of note also is, we do have a  
6 system administrator who is previously from Wyoming  
7 community banks and has that background. These are all  
8 full-time resources.

9                   But in addition to that, we do have an  
10 advisor, Bob McElrath, who serves as an adviser and  
11 part-time consultant. Bob has a background as a Ph.D.  
12 in theoretical particle physics. Took a number of  
13 post-docs. Left academia to get into finance. He  
14 worked as a software engineer at Bloomberg. And then  
15 also, he was lead blockchain architect for Fidelity  
16 Digital Assets, and he helped design their custodial  
17 system.

18                   Q     Could you describe the information security  
19 policy of Avanti.

20                   A     The information security policy outlines the  
21 required elements of an information security program.  
22 Those elements are as follows.

23                   There's issues of training, hardware,  
24 software, logging and monitoring, reporting, external  
25 review, incident response, vendor management. Let me

1 start at training, and I'll describe each of these as  
2 briefly as I can.

3 You know, we've talked a lot about internal  
4 controls, and I'm a big fan of more technical automated  
5 internal controls. But even the most advanced  
6 automated internal controls can be overcome by human  
7 error and, in some cases, even phishing tax.

8 So one of the important elements at Avanti as  
9 an information security is regular training of  
10 employees, both from a cybersecurity awareness  
11 training, but with regards to each employee's core  
12 function.

13 At a hardware level, the information security  
14 program focuses on access control. Often, it might  
15 sound simple, but it's often effective at the software  
16 layer. Another interesting aspect is encryption and  
17 protection of data, customer information both in  
18 transit and also at rest, which is a way of protecting  
19 data.

20 We have extensive logging and monitoring of  
21 our software systems. And in addition, we have certain  
22 data retention requirements around those logs. This  
23 retention requirements also extend to our ancillary  
24 application databases beyond the core, such as for  
25 digital asset data.

1                   And so that's -- we have regular backups of  
2 that data, and also -- that's on a daily basis, of  
3 course, and then also something called active/active.  
4 It's the availability of database, if there's more than  
5 one database running, and one goes offline, the other  
6 is available.

7                   Another element of the information security  
8 program is reporting and external review. There is  
9 reporting requirements, both internally, of course, up  
10 the ladder but also to the Board. And then external  
11 review is a very important element on a number of  
12 different layers. You know, we've heard about audit  
13 functions, but then there's also elements such as  
14 penetration testing and then also security review of  
15 some of the more critical systems. And also review  
16 internal controls, of course.

17                   Now on to the fun part. Incident response is  
18 quite interesting. At Avanti, our incident response  
19 program, of course, intersects with information  
20 security policy. We do have a separate incident  
21 response policy and program in place.

22                   What's interesting about incident response in  
23 this case is that issues of availability of our  
24 services are responded in a manner similar to incidents  
25 of security, such as breaches. So we take both sorts

1 of issues very seriously.

2                   We have -- in the incident response policy,  
3 we have what we call playbooks, so in the event that  
4 the incident response policy is called to action or the  
5 incident response team is triggered there is easy  
6 reference materials available. So if your hair's on  
7 fire, you know, you'll have something to refer to  
8 and -- and reference.

9                   Finally, I mentioned vendor management.  
10 Britney Reddy is running our vendor management program.  
11 It obviously intersects with information security and  
12 information technology. I am aware of that and  
13 involved in that. I'm aware that it just plays an  
14 important role in retaining a safe and sound bank.

15                Q        So how do you identify risks and how you will  
16 mitigate them?

17                A        So we identify risks with a risk assessment  
18 process, which is on a regular recurring basis. We  
19 mitigate risks through internal controls, procedures.  
20 And other mitigation with the help of our team, which  
21 has considerable expertise to help facilitate  
22 developing the appropriate mitigations. We start with  
23 high-risk, high-harm items, and we prioritize those,  
24 and we work our way down to low-risk, low-harm items.

25               Q        Do you believe that the risks of this bank

1 differ from those faced by traditional banks?

2 A Yes, I do. There are a few differences in  
3 terms of risks that we have to address. Namely,  
4 digital assets is a unique risk that most banks do not  
5 have to address, other than, apparently, denying  
6 accounts. But that's because, I mean, of course, it  
7 wasn't the go-ahead from regulators that banking  
8 digital asset customers was okay. The risks around  
9 digital assets are numerous. However, they can all be  
10 addressed, and they are, in fact, being addressed.

11 Q So in your opinion, are there systems at  
12 Avanti that are similar to those of traditional banks?

13 A Yes. So while there may be different risks,  
14 there are portions of the systems at Avanti that are  
15 similar to traditional banks. Of most importance to  
16 me, I suppose, would be the mentioned -- the core  
17 system, which is what other banks use, and so will we.

18 Q Are you responsible for the policies  
19 associated with the storage of digital assets?

20 A Ultimately, the board is responsible for  
21 board-approved policies. However, I am responsible for  
22 building a system, internal testing, and maintaining  
23 them in production. I'll note that other staff will be  
24 responsible in daily operation in an internal control  
25 sense for the movement of digital assets. That will

1 not be my role.

2 Q So how is it, technologically, that an  
3 intangible can be the subject of custody?

4 A Right. So we were talking about a lot about  
5 digital asset custody. What is that? What is a  
6 digital asset? How does -- how does that work? I'll  
7 try to give a brief answer.

8 So when people talk about the custody of a  
9 digital asset, what they're really talking about is the  
10 safe and secure storage of a secret pieces of  
11 information that endows with the ability to authorize  
12 digital asset transactions. So custody in this sense  
13 is the protection of that secret. In a sense, this can  
14 be thought of as a very long password, for example.

15 So the security around custody is entirely  
16 around the security of the secret, the management --  
17 access control management, and other procedures or  
18 mitigations to prevent unauthorized access of these  
19 secrets.

20 Q How are you going to protect digital assets  
21 at Avanti?

22 A Well, for details, specifics -- that get into  
23 more specific detail, that is a subject that I would  
24 ask to reserve for executive session, because it's a  
25 matter of security. However, I will say a few

1 high-level details.

2                   One of them is that we do not store digital  
3 assets in our office in Cheyenne, Wyoming. We have  
4 policies and elaborate procedures that are specifically  
5 designed for the secure storage of digital assets. We  
6 have requirements, and we intend to engage in annual  
7 penetration tests, ongoing risk assessments, external  
8 audits, and other reviews.

9                   In addition to that, with respect to  
10 protecting digital assets, I intend to closely monitor  
11 assets under management, and as they grow, that  
12 warrants paying closer attention to the mechanisms of  
13 protecting digital assets and whether -- whether  
14 they're sufficient or need to be further developed over  
15 time.

16               Q       So you're also a director of the company.  
17 How would you describe your role and contribution as a  
18 director?

19               A       Yes. So as a director, I'm following the  
20 office of the comptroller of the currencies director  
21 handbook as a guide. I prefer to seek out dissenting  
22 opinion, review it, but then make specific decisions.  
23 As a board member, I think that my contribution to this  
24 five-member board at the moment is my extensive  
25 background in technology and software development, my,

1 more specifically, background in digital assets, and my  
2 in-depth technical understanding of software product  
3 development in digital assets in general.

4 Q Are you part of any board committee?

5 A Currently, every board member sits on every  
6 committee. As we grow, we will segregate into  
7 committees where we provide the most strength  
8 individually, of course.

9 Q How do you plan to ensure the integrations  
10 that you build with the core banking system will  
11 actually work?

12 A So internally on my team, we adhered to  
13 modern software development practices which has a  
14 strong emphasis on testing.

15 When you can think of -- when you think of  
16 software inside a company, at least well-run companies,  
17 there should be multiple environments where that  
18 software is used and tested and deployed. For example,  
19 development environments, staging environments,  
20 sometimes even customer test environments, where  
21 customers can get access to an environment where  
22 mistakes are harmless. And then, of course, a  
23 production environment, which is the ultimate  
24 environment, you know, very strongly locked down.

25 In addition, I've been working very closely

1 with Britney Reddy, our chief banking officer, to  
2 ensure that the interplay between Avanti's custom  
3 system and its core will go well.

4                   Also, these integrations will also be tested  
5 by an independent party not associated with building  
6 it.

7                   Q        How will you mitigate cybersecurity risk and  
8 ensure that the systems are safe?

9                   A        Well, the information security program is  
10 designed to ensure that we have an appropriate  
11 cybersecurity posture. But in addition to that, I  
12 believe security is a team sport, and so I do rely on  
13 my team, with our expertise and experience in  
14 security-related matters. And then also, I feel it is  
15 very important, and I can attest so does the rest of  
16 management, that developing a culture of security is  
17 extremely important to us.

18                   Q        Finally, how are you going to mitigate risks  
19 of internal theft?

20                   A        Well, risk mitigation regarding internal  
21 theft has a number of layers. One layer is internal  
22 controls, and as mentioned, we have an internal control  
23 policy, regular review, and assessment of that. We  
24 have also the regular security assessments.

25                   But then also, with regard to digital asset

1 transactions, multiple employees are required to be  
2 involved to actually effect a movement of digital  
3 assets. In addition, regarding software development,  
4 changes to software are reviewed by multiple  
5 individuals in a process commonly referred to as code  
6 review.

7 MR. DYEKMAN: Thank you, Mr. Bishop. That's  
8 all the questions I have for you.

9 MR. DEMERS: Mr. Chairman?

10 CHAIRMAN LAWTON: Thank you. I don't have  
11 any questions at this time.

12 MR. RIFE: Thank you. No questions.

13 MR. DIXSON: Thanks, no questions.

14 MR. JENSON: Unfortunately, I do, so hold up  
15 lunch.

16 EXAMINATION BY THE BOARD

17 MR. JENSON: So inside any organization,  
18 there's conflicting interests. In other words, you're  
19 bringing out Avanti. You're actually creating a lot of  
20 software that underlies Avanti and Avit, and there will  
21 be different interests on how soon you bring this  
22 technology to the market. I'm sure you'll have some  
23 CEOs saying, It's time. You may have an IT guy saying,  
24 I'm still in development. I'm not in production.

25 Explain to us how a product comes to market,

1 what is the deed level at which -- who has the final  
2 say if it's time or it may not be time. I can see a  
3 conflict between you and some other people.

4 MR. BISHOP: Well, first, I'll address  
5 conflicts in general, especially with respect to  
6 internal controls. That's primarily mitigated by  
7 segregation of duty, and it's very important to have  
8 personnel that are, you know, not in the same role,  
9 different areas, to provide input to that.

10 With respect to, when is it ready or it's  
11 time to go, I have a few parts to answer to that.

12 One is that I believe that my role on the  
13 board will protect the organization to ensure that we  
14 do not launch something that is just not ready to be  
15 launched.

16 In addition to that, I believe that we have a  
17 strong culture of security, and everyone on the  
18 executive team is aware of the importance of security  
19 and to -- you know, throughout my -- my time here, I've  
20 never once questioned whether someone will pressure me  
21 to do something that I feel uncomfortable with.

22 MR. JENSON: Thank you. And that's more of  
23 an unfortunate question, but you've got an impressive  
24 resume and done some very impressive stuff.

25 What happens from a risk perspective, when

1 you have to look at, if something happens to you and  
2 you're unable to do your job in the short term? Please  
3 discuss that?

4 MR. BISHOP: Well, so that's keyman risk. So  
5 a few parts to this answer.

6 I -- I take very extensive notes. I'm a very  
7 prolific note-taker. You know, I do close to  
8 word-for-word transcripts as much as I can when I'm  
9 doing meeting notes, and that's just based off of, you  
10 know, looking at the economics of the meeting when you  
11 have 10 people in the meeting and you multiply by how  
12 much money you're spending. You know, these are  
13 valuable meetings.

14 Anyway, extensive notes, extensive  
15 documentation. I -- I also believe that on my team, if  
16 necessary, that there is someone who can be a successor  
17 to -- to my role, should that become necessary.

18 MR. FRANCE: Mr. Bishop, you've talked a lot  
19 about software development, and as is noted, your  
20 resume is very impressive.

21 With respect to the information security,  
22 which naturally is extremely important, do you have any  
23 certifications in actual information security? It may  
24 have been included in documentation.

25 MR. BISHOP: No, I do not. On that front, I

1 am also looking to rely on other individuals on my team  
2 and in the organization. Britney Reddy. And then  
3 also, the system administrator resource that I  
4 mentioned from previous Wyoming community banks. But I  
5 personally do not have security certifications, no.

6 MR. FRANCE: With respect to an external  
7 reviews, what is the frequency plan for external  
8 reviews?

9 MR. BISHOP: So at minimum, it is annual. I  
10 believe that some of them are, in our policies, set to  
11 quarterly.

12 MR. FRANCE: And then, I guess, lastly, as  
13 the CTO, I know me, as a CF -- or CEO of my bank, one  
14 of the things that keeps me up at night is information  
15 security breach.

16 What keeps you up at night for this company  
17 as you move forward if this charter is granted?

18 MR. BISHOP: Well, the number one item on my  
19 mind is a very specific element of information  
20 security. That's not to say I ignore other elements,  
21 but risk of digital asset breach and theft is of  
22 paramount importance to me. That is -- that is the  
23 item that I ponder on the most.

24 MR. FRANCE: Should that happen, how do you  
25 mitigation that risk or how do you mitigate that risk

1 ahead of time?

2 MR. BISHOP: Sure. So I'll start with, let's  
3 say, should something happen.

4 Should something happen, there are all kinds  
5 of things that could happen that are bad. Our incident  
6 response program is designed to activate in that  
7 eventuality and immediately look into what has been  
8 breached, to what level.

9 Often, it's common to look at the ultimate  
10 catastrophe, such as a loss of all digital assets. But  
11 before you even get there, there's often other breaches  
12 that lead up to that, and those important to monitor  
13 and respond to just as swiftly.

14 With regards to mitigation on -- before  
15 something bad happens, that -- that is a function of  
16 the information security program, regular risk  
17 assessments, the mitigations that come from -- come  
18 from that risk assessment, implementing those. I also  
19 believe in code review by multiple personnel, and then,  
20 of course, also the external review.

21 MR. FRANCE: And then lastly, if you could  
22 talk just of the frequency of employee training.  
23 Certainly, I think most of us recognize that oftentimes  
24 is the single greatest risk that we have. So frequency  
25 of training. Could you address that?

1                   MR. BISHOP: I can. However, I would prefer  
2 to save that for executive session, details about  
3 training frequency around cybersecurity, for example,  
4 is not something for public comment.

5                   MR. FRANCE: Thank you.

6                   MS. SHARP: No questions. Thank you.

7                   MR. SORENSEN: No questions. Thanks.

8                   MR. DEMERS: Any further questions from the  
9 Board?

10                  Mr. Dyekman, any further questions?

11                  MR. DYEKMAN: No, thank you.

12                  MR. DEMERS: Okay. Given Mr. Bishop's  
13 testimony, I think I'd be derelict if I didn't ask, are  
14 we going to be able to do anything to secure the room  
15 during our lunch recess? Thank you.

16                  And Mr. Chairman, what time did you want to  
17 get back together.

18                  CHAIRMAN LAWTON: It's 12:00 o'clock now. So  
19 let's shoot for 1:00 o'clock, please.

20                  (Recess from 11:57 a.m. to 12:59 p.m.)

21                  MR. DEMERS: Thank you. Mr. Dyekman, can you  
22 call your next witness, please?

23                  SPECTATOR: I think it's still loading.

24                  MR. DYEKMAN: Yes. That's all right. I'll  
25 speak up.

1                   There we go. Thank you. I have seated Zev  
2 Shimko.

3                   ZEV SHIMKO,  
4 having been first duly sworn, testified as follows:

5                   EXAMINATION  
6 BY MR. DYEKMAN:

7                   Q       Please state your name and your position with  
8 Avanti.

9                   A       My name is Zev Shimko, and I am co-founder  
10 and chief operating officer of Avanti.

11                  Q       And what are your responsibilities at  
12 Avanti?

13                  A       I am responsible for business development,  
14 customer acquisition, product oversight, management of  
15 liquidity providers on Avanti's platform, insurance,  
16 capital raising, and investor relations matters.

17                  As you heard, Britney Reddy mentioned  
18 earlier, my operational focus is primarily on the  
19 digital asset side of our business. I am responsible  
20 for building out the business process and flows for  
21 each of our planned digital asset products and  
22 services.

23                  Business development also falls in my -- in  
24 my domain, and I'd be leading conversations with  
25 potential partners and customers.

1                   On the partner side, these conversations have  
2 primarily been with institutional liquidity providers,  
3 which will provide liquidity for digital assets on our  
4 platform.

5                   On the customer side. This profile varies  
6 widely from digital asset funds to traditional  
7 corporations. We have been fortunate to have received  
8 meaningful inbound inquiries from prospective customers  
9 for each of our products.

10                  I am also responsible for putting our  
11 insurance strategy in place, with input from others on  
12 my team, for the traditional components of the policy.  
13 We will comply with Wyoming's requirements with  
14 respects to commercial insurance and will have  
15 insurance on both the traditional aspects of our  
16 business -- for example, directors and officers -- as  
17 well as policies specific to digital assets, including  
18 cybersecurity and theft. We are engaged with a  
19 well-known insurance broker and expect to have these  
20 policies in place prior to opening.

21                  Internally, I also cover the human resources  
22 function within Avanti, which includes employee  
23 onboarding, background checks, and benefits management.

24                  The remainder of my time is spent on  
25 investor-related matters, including capital raising and

1 investor relations. Avanti has closed two rounds of  
2 funding to date, as well as a convertible note, and we  
3 plan to soon close a third, bringing in the remaining  
4 capital, as laid out in our business plan. Our current  
5 investors include well-respected funds and institutions  
6 with deep knowledge in both financial services and  
7 blockchain technologies.

8 Q What's your personal background, and how were  
9 you introduced to Avanti?

10 A I started my career in the global capital  
11 markets division of Morgan Stanley where I initially  
12 met our CEO, Caitlin Long. The group where we both  
13 worked helped large corporations raise billions of  
14 dollars through investment-grade bond sales.

15 As an example for the type of transactions,  
16 our small group was responsible for -- I'll highlight  
17 AbbVie, Inc.'s \$16.7 billion investment-grade bond  
18 offering to fund its acquisition of Pharmacyclics.  
19 Morgan Stanley was primarily responsible for the  
20 offering, known as "lead left book runner," and I was  
21 the lead analyst on the transaction. I was part of a  
22 handful of analysts selected as star fellows, which  
23 provided me the opportunity to spend some time in the  
24 equity capital market side of the business.

25 Following three years in the analyst program

1 at Morgan Stanley, I moved out to San Francisco and  
2 ended up leading the capital markets efforts for a  
3 financial technology lender. Specifically, I helped  
4 build out the securitization program for a company  
5 called Upstart, which ensured ongoing institutional  
6 funding for the company. It was at this company where  
7 I first started to develop meaningful relationships  
8 with institutional investors.

9 I held a similar role at another marketplace  
10 lending company called Prosper, which is considered to  
11 be America's first peer-to-peer online lending  
12 marketplace.

13 Around the same time, I was continuing to  
14 learn more about virtual currencies and broader  
15 blockchain technology. I was spending many nights and  
16 weekends digging deeper into this new technology and  
17 made a decision that I needed to be in a  
18 blockchain-cenetric organization.

19 My experience in capital markets and lending  
20 led me to a company called SALT Lending, based in  
21 Denver, which was the first company to provide dollar  
22 loans against digital assets. I was fascinated by  
23 digital asset collateral and understood why it was an  
24 ideal collateral form. With the right technology, it  
25 was quick to value and easy to liquidate.

1                   I ended up running corporate development for  
2 SALT Lending and was promoted to become an officer of  
3 the company. As a lender in the US, SALT was required  
4 to obtain certain state-by-state licenses, as we did  
5 not rely on a bank lending partner.

6                   We also provided lending services in other  
7 countries, including Australia, where I spent a  
8 meaningful amount of my time working with law firms,  
9 potential customers, and investors. I represented the  
10 company at international events and also here in the US  
11 with regulators.

12                  I then made a decision to move back to  
13 San Francisco to start my family and joined an  
14 enterprise blockchain company, Figure Technologies.  
15 Over \$1 billion of home equity line of credits had been  
16 originated, serviced, or sold on Figure blockchain  
17 protocol provenance, and I was responsible for business  
18 development of this platform.

19                  Since leaving Morgan Stanley, I connected  
20 with our CEO, Caitlin Long, at various conferences over  
21 the years. I was at Figure Technologies when Caitlin  
22 had reached out to me and asked if I would be  
23 interested in joining the Avanti team.

24                  After a few conversations with Caitlin and  
25 conducting independent research, I believed, and still

1 do, that Avanti is an important bridge between the  
2 traditional and digital financial services industries  
3 and critical infrastructure for blockchain-focused  
4 companies.

5 Avanti sells many of the legal and regulatory  
6 concerns that have frequently come up with  
7 institutional investors in my past. Additionally,  
8 direct access to the Federal Reserve payments network  
9 would allow Avanti to provide new products and avoid  
10 many of the common risks in the digital asset industry,  
11 such as settlement risks, as we have the ability to  
12 settle both the dollar and digital asset legs of a  
13 transaction. I'll explain this risk in a few minutes.

14 I decided to join Avanti not only because of  
15 its mission but also because of the team Caitlin had  
16 assembled. It is important to have deep experience  
17 from both the traditional and blockchain industries,  
18 and I have been impressed by the work of my colleagues.

19 My background in regulated companies, capital  
20 markets, financial technology startups, and enterprise  
21 blockchain has provided a well-rounded skill set for my  
22 role at Avanti. I'm excited to be a part of the Avanti  
23 team and thankful to be working with such a talented  
24 group of individuals.

25 Q Could you please discuss Avanti's product

1       offerings and explain the settlement risk mitigation  
2       that you mentioned earlier.

3           A        Sure. Many of my past experiences involve  
4       building and offering products that customers want or  
5       need. Each of Avanti's products provide necessary  
6       functionality, increased efficiency, core enhanced  
7       protection to our customers.

8                   Let me describe the different business  
9       lines -- business lines which consist of online  
10      banking, Avit, digital asset custody, and prime  
11      services.

12                Online banking. We will offer digital  
13      banking services through our online portal in a  
14      seamless and efficient manner. These services include  
15      demand deposit accounts, ACH, or automated  
16      clearinghouse, payments, and wire transfers.

17                Avit. Our digital dollar product, Avit,  
18      provides the stability of the US dollar with a  
19      settlement efficiency and finality of a digital asset  
20      and has applications in areas such as digital asset  
21      trading and corporate treasury management.

22                Digital asset custody. We will be offering  
23      custody services as a qualified custodian, which  
24      includes the safe storage of digital assets and  
25      deposit and withdrawal capabilities.

Prime services. This will include additional digital asset services, including the purchase and sale of digital assets and other escrow-related services. It is through this business line that we were able to reduce or eliminate much of the settlement risk that currently exists within digital asset transactions.

As an example, many of the over-the-counter transactions, which are estimated to be in the billions on a daily basis, typically settle within a 24-hour period post-trade confirmation. During this window, one party will settle the US dollar regulated transaction and the other would settle the digital asset leg.

In practice, it is common for the larger company to settle second, but this creates a large amount of counter-party risk for the first party. If two parties to the transaction were both customers of Avanti, we could, for example, immediately and bilaterally settle the transaction, eliminating the counter-party risk. We are able to do it efficiently, as Avanti has the ability to settle both the US dollars and the digital assets, unlike current participants in the market.

Another aspect of risk mitigation comes into play with our insurance strategy. As mentioned

1       earlier, we are engaged with an insurance broker and  
2       currently working through appropriate policies which  
3       will include digital asset coverage. Insurance is a  
4       key risk mitigation tool and provides additional  
5       comfort and protection to our customers.

6           Q       What are your current thoughts about customer  
7       acquisition for Avanti?

8           A       As I am responsible for customer acquisition,  
9       it is important that any potential customer understands  
10      Avanti's structure and regulatory framework. For  
11      example, we will ensure that customers understand that  
12      we have a full reserve structure and that Avanti does  
13      not offer FDIC insurance.

14               Once customers have decided they'd like to  
15      engage with Avanti, they will go through a robust  
16      on-boarding process that will be overseen by our chief  
17      compliance officer and BSA officer.

18               We believe Avanti's status as a bank serving  
19      institutions in digital assets will attract customers  
20      without requiring much outbound marketing, which is  
21      consistent with our experience so far. Avanti has been  
22      the subject of numerous incoming inquiries, based on  
23      press coverage, including pieces written by Forbes and  
24      CoinDesk.

25               CoinDesk is generally regarded as one of the

1 primary news sources for the digital asset space. And  
2 Avanti was recently highlighted in CoinDesk's selection  
3 of business highlights of 2020.

4 Additionally, Avanti's executive team has a  
5 robust network within the traditional and digital asset  
6 target customer bases. We plan to be actively engaged  
7 with institutional investors and attend corporate  
8 treasury conferences to drive user acquisition.

9 We do not anticipate a large marketing spend  
10 but have projected modest levels of marketing-related  
11 expenses in our financial projections, which will  
12 include conference attendance and sponsorships, website  
13 advertising, and marketing collateral.

14 Business development will be headed by myself  
15 and Avanti's chief executive officer and will also be  
16 crucial in obtaining large customer accounts.

17 Q Do you believe you have enough resources in  
18 place to execute your acquisition plan?

19 A To add to my previous remarks, I also have a  
20 director of business development on my team to assist  
21 in driving customer acquisition and related business  
22 development efforts. He has been involved in the  
23 digital asset industry for the last few years and was  
24 most recently director of research and business  
25 development at a digital asset fund prior to joining

1 the Avanti team.

2 To provide a bit more information, our first  
3 wave of customers will largely come through current  
4 relationships that the Avanti team has, whether from  
5 former companies or through personal networks.

6 Our second wave of customers will likely come  
7 to us through current customer referrals or simply from  
8 seeing Avanti in the news. As mentioned, we've had  
9 numerous unpaid media stories written about Avanti  
10 which has led to large amount of inbound inquiry for  
11 digital asset services.

12 Finally, our third wave of customers will  
13 come to us through more traditional business  
14 developments and acquisition techniques, such as sales  
15 processes, conferences, and other general marketing  
16 efforts.

17 Q Do you believe Avanti will be able to meet  
18 its capital plan?

19 A Yes. We have successfully closed two rounds  
20 of funding plus a convertible note. Our last round of  
21 funding was significantly oversubscribed, and investors  
22 were cut back on their desired allocations. We've had  
23 significant inbound interest for our Series A capital  
24 raise, which we have not kicked off, but we are  
25 confident we will be able to complete the round.

1                   For confidentiality reasons, if you would  
2 like further information, we can provide it in the  
3 executive session.

4                   Q        How do you split your responsibilities with  
5 Britney Reddy?

6                   A        Britney has relevant experience in  
7 traditional banking, and I have relevant experience in  
8 financial technology and digital assets. Britney will  
9 ensure we are in a safe and sound manner and that our  
10 operational procedures and internal controls meet or  
11 exceed our statutory requirements, while I will develop  
12 the products and manage our business development  
13 efforts.

14                   As an example, I may come up with a new  
15 digital asset related product or service and will work  
16 with Britney to understand how this fits within a  
17 traditional banking regulatory structure and core  
18 banking software.

19                   Q        Speaking of Britney, she deferred a few  
20 questions to you, so I'm going to remind you of those  
21 and ask for your responses.

22                   The first question was asked about the  
23 mechanics of lending that we have discussed earlier for  
24 Avanti. So how would you describe that, those  
25 mechanics?

A So to reiterate earlier remarks, I would just confirm that we are not lending without the direct approval of our customers. And those customer assets would not be lent out unless they had approved the borrowers on our platform as well. Both sides to the transaction would be customers of Avanti, and as mentioned previously, we would not be the lender of record. We just facilitate the lending with the technology we have in place.

Q And is there a fee related to that?

A There will be a fee related to that. I would just note that this is not a launch product for us. So we have not finalized all the mechanics of how the lending program will be built, but we are doing so in the next few months and expect to launch this product within the first three years of operation.

Q The second question that was deferred to you was the question of bitcoin volatility and its possible effect on revenue. What are your thoughts about that?

A Great. I'll first add that because of my deep experience in digital assets, I aided Britney in the original assumptions for the digital asset related products and services and the specific assumptions that went into the business plan and projections.

You'll notice that bitcoin volatility on a

1 net basis did not have much impact to our net income,  
2 and that's because there's an offsetting nature between  
3 the fees and assets under custody and the fees in prime  
4 services.

5 For example, when volatility increases, we  
6 expect lower assets under custody due to increased  
7 withdrawals. However, prime services activity will  
8 accelerate. And the opposite is true as well. When  
9 volatility decreases, we will expect increased assets  
10 under custody fee and lower fees tied to prime  
11 services.

12 Q And the last question, I think, had to do  
13 with the factual rationales for certain things in your  
14 projections.

15 A So I won't go into specific numbers regarding  
16 the multiples that you see in the financial  
17 projections. We had done extensive modular research  
18 and then applied a significant haircut to the data that  
19 we saw due to the fact that we are not yet an operating  
20 business, and we obviously do not yet have customers.

21 On the specific multiples points, there are  
22 some companies that we have spoken with that actually  
23 see that multiple on a daily basis. We are projecting  
24 that multiple on an annual basis, so we actually think  
25 that that number might be conservative, but again,

1 because we are not yet live, we do not yet have  
2 customers, we do not yet know our specific customer  
3 behavior.

4 We decided to add large haircuts to the data  
5 points we saw in the market. I'll also note that those  
6 multiples will obviously change on a normal basis as we  
7 start to understand customer behavior and see volume  
8 flow of the platform. We'll be making changes and  
9 adjustments to the multiples.

10 Q Anything else you wanted to mention?

11 A No, I think that was it. Thank you.

12 MR. DYEKMAN: Okay. Thank you.

13 That's all I have.

## EXAMINATION BY THE BOARD

15 MR. DYEKMAN: Mr. Chairman?

16 CHAIRMAN LAWTON: Thank you. No questions.

17 MR. RIFE: Thank you for your testimony.

19 for that. That helps clarify things in my mind.

20                           But I'm just trying to piece together,  
21                           though, the marketing aspect of that. So are you out,  
22                           leading that charge to match these customers together  
23                           to do that transaction that creates, basically, the  
24                           loan? How does that work?

25 MR. SHIMKO: So we have not got into the

1 marketing component of that program, to be perfectly  
2 honest. I would expect that the activity comes from  
3 closed customers of Avanti and from customers that do  
4 know each other and do business with each other at the  
5 start.

6 As the program goes, we may see additional  
7 volumes, and our customers interested in working with  
8 more participants on the platform. But we have not  
9 built out a marketing strategy for the lending program  
10 that was mentioned.

11 MR. RIFE: Thank you. You mentioned in the  
12 application that, you know, one of the things that  
13 Avanti will do will be to apply for a master account at  
14 the Fed, and I don't want to get into those details.

15 I'm just curious if you have created a  
16 redundant path of some other alternative mechanism  
17 should you need to do something in that arena.

18 MR. SHIMKO: Is that a specific question to  
19 lending?

20 MR. RIFE: No. I'm sorry. Step back from  
21 lending.

22 That master account, you're depending on  
23 that. As far as a redundant feature in case, for  
24 whatever reason, that's not available to you or you  
25 want another option, have you considered what that

1 might look like?

2 SPEAKER: Respectfully, I'd like for Zev to  
3 answer the high levels, but if there's --

4 MR. RIFE: Yeah. Perfect. Yeah. Yeah, I  
5 don't -- I don't require details right now.

6 MR. SHIMKO: Yeah, I would just reiterate  
7 Britney's comments that we do intend to seek Fed  
8 membership, but we do not think that it will be crucial  
9 for Avanti's success.

10 MR. RIFE: Thank you. Appreciate that. And  
11 I guess I'm not talking about Fed membership. I'm  
12 talking about the master account at the Fed. So we can  
13 save that for executive session.

14 MR. DIXSON: No questions.

15 MR. RIFE: No more questions.

16 MR. JENSON: Just one question.

17 So the primary -- the only crypto you're  
18 going to service at time zero is bitcoin. How soon do  
19 you think you'll move into some of the other  
20 cryptocurrencies, and how important is it to expand  
21 that?

22 Okay. At time zero, you are only servicing  
23 bitcoin. How long do you think before you have to move  
24 into other cryptocurrencies, and how important is  
25 having multiple cryptocurrencies in your platform to

1 the business plan?

2 MR. SHIMKO: As -- as you're probably aware,  
3 a majority of the institutional interests in digital  
4 assets revolves around bitcoin, which is our initial  
5 plan to provide product and services around bitcoin.

6 We may expand to other top-tier digital  
7 assets by market cap, and so I would expect us to  
8 provide services for a few additional assets over the  
9 next three to five years. I don't anticipate going as  
10 far down the list of market cap assets and provide a  
11 full breadth of services. We are really targeting the  
12 institutional markets, and right now, that is really  
13 around bitcoin, and second would be Ethereum.

14 MR. FRANCE: No questions.

15 MS. SHARP: No questions.

16 MR. SORENSEN: I just want to understand your  
17 customer base a little better. Is there lots of  
18 customers out there? Is it a very refined group of  
19 institutions?

20 MR. SHIMKO: The short answer is, it's rather  
21 broad, but I would break it up into customers that  
22 currently are involved in digital assets and customers  
23 that are looking for exposure to digital assets.

24 In the first group, you have digital asset  
25 companies. You have digital asset funds. And perhaps

1 other types of funds. And in the second group, you  
2 have some of the larger institutions that deal in  
3 conventions, such as pension funds, endowments, large  
4 PE funds, that have been looking for a bank-like before  
5 getting exposure to digital assets.

6 MR. SORENSEN: So will you be helping some of  
7 these entities that aren't currently in it to get  
8 involved, do education, and such? Is that part of the  
9 marketing?

10 MR. SHIMKO: That is part of the marketing,  
11 yes. You know, again, we have had numerous articles  
12 written about Avanti and our products and have received  
13 a meaningful amount of interest from large institutions  
14 that are not yet involved in digital assets.

15 MR. SORENSEN: So you guys are thinking  
16 there's a lot of -- lot of customers out there?

17 MR. SHIMKO: We do, yes.

18 MR. SORENSEN: Okay.

19 MR. DEMERS: Any further questions from the  
20 Board?

21 Mr. Dyekman, anything further of this  
22 witness?

23 MR. DYEKMAN: Nothing further.

24 MR. DEMERS: Thank you, sir.

25 THE WITNESS: Thank you.

1 MR. DEMERS: Did you want to call your next  
2 witness, please.

3 MR. DYEKMAN: John Pettway, please.

4 JOHN PETTWAY,

5 having been first duly sworn, testified as follows:

6 EXAMINATION

7 BY MR. DYEKMAN:

8 Q Please state your name and your role at  
9 Avanti.

10 A John Pettway. I'm an independent director.

11 Q Could you describe your role in Avanti with  
12 some more detail.

13 A Sure. My role as an independent director is  
14 to understand and implement the business plan of the  
15 company. I will also assist in establishing and  
16 enforcing policies and procedures to mitigate risks  
17 associated with the financial institution.

18 Q Could you describe your background to the  
19 Board, please.

20 A Sure. I started as a certified public  
21 accountant for Ernst & Young, working in DC in the  
22 audit program, where I got exposure to a number of  
23 industries, including banking.

24 After a few years, I went to law school.  
25 Ended up working for a small business practice firm in

1 Alexandria, Virginia. My work involved advising small  
2 business -- businesses anywhere from structure to tax  
3 compliance to evaluating business plans.

4 Several years later, I joined a -- set up a  
5 real estate company in Salt Lake City, Utah, where we  
6 purchased commercial real estate office buildings and  
7 residential office -- residential communities.

8 Several years later, I moved to High Plains  
9 Investments, which is headquartered in Park City, Utah.  
10 High Plains had a bigger portfolio, and over the years,  
11 I was probably involved in roughly 30 venture capital  
12 transactions in a wide variety of industries.

13 Over those years, I would estimate that I was  
14 on the board of somewhere between 15 and 20 different  
15 companies, including two publicly traded companies,  
16 Overstock.com and El Dorado Bank shares. For the past  
17 5 or 10 years, I've also independently provided  
18 services to small businesses, typically evaluating  
19 business plans or investment opportunities or helping  
20 advise on structure and such.

21 Q Well, so how did you get involved with  
22 Avanti?

23 A I represented the seed investor in Avanti.  
24 And since January I've been working with Caitlin,  
25 helping her work towards organizing the initial capital

1 structure of Avanti. I also invested personally in the  
2 angel round.

3 Q So what are your views on how the board is  
4 currently functioning?

5 A I think the Board is functioning very well.  
6 We've met multiple times. We've had two formal  
7 meetings in person. Updated weekly. The board is very  
8 engaged and supportive of management. I think we're  
9 ready to become a bank board.

10 Q Do you know what your role will be as the  
11 audit committee chair?

12 A We haven't actually formally divided into  
13 committees. It's anticipated with my accounting  
14 experience that I would assume the chair of the audit  
15 committee. That said, all members of the directors --  
16 or all members -- all directors are going to  
17 participate in all the committees at that stage.

18 My primary role as audit director will be to  
19 provide oversight, internal control, and audit policy.  
20 I'll be involved in engaging auditors with regard to a  
21 minimum of information technology, the bank secrecy  
22 act, compliance, and accounting.

23 I know that Zev and Britney has already been  
24 in conversations with several auditing firms, and  
25 they've shared those discussions with me, and I fully

1 expect to be actively involved in the final selection  
2 process.

3 Q As a CPA, how does your background assist  
4 Avanti?

5 A I've got a great appreciation for the  
6 importance of internal controls and audit. As a  
7 director, I'll do my best to ensure the policies and  
8 procedures are implemented, enforced. All the  
9 directors are aware of their importance of the  
10 alignment between the policies and procedures to  
11 internal control and audit, all in order to ensure a  
12 safe and sound financial institution.

13 Q As a member of the board, do you feel like  
14 the board's getting sufficient access to information to  
15 do its job?

16 A I do. I think the Board is well-informed,  
17 has access to all the information we need to make an --  
18 informed decisions. When additional information is  
19 requested, it's promptly provided, in a timely  
20 manner.

21 Q Given your prior experience as a director at  
22 a bank, do you believe Avanti's board and executives  
23 are capable of building and governing a bank that will  
24 operate in a safe and sound manner?

25 A I do. I believe the management team, along

1 with the board of directors, is more than capable and  
2 committed to operate a financial institution that's  
3 financially sound and -- safe and sound.

4 Q Have you seen anything yet with Avanti that  
5 would create a red flag for you as the chairman of the  
6 audit committee?

7 A No, I have not. Risks are being evaluated,  
8 you know, continuously with executive management and  
9 board, and appropriate risk mitigation strategies are  
10 being developed and implemented.

11 Q You've had some contact with Britney Reddy  
12 now. Do you think that she's capable of establishing a  
13 strong internal audit program?

14 A Absolutely. Britney has established multiple  
15 internal control programs. Between her previous  
16 banking experience and my background in public  
17 accounting, I have no doubt that there will be an  
18 extensive internal control and audit program.

19 Q Do you believe that Avanti ought to be the  
20 recipient of a bank charter in Wyoming?

21 A I do. Avanti's board and executive  
22 management are knowledgeable, capable, and committed to  
23 ensuring that the bank operates in a safe and sound  
24 manner, with appropriate controls. In my opinion, I've  
25 seen or heard nothing that would make me think

1 otherwise.

2 MR. DYKEMAN: Thank you.

3 EXAMINATION BY THE BOARD

4 CHAIRMAN LAWTON: Thank you. I just have a  
5 quick question. I think it's -- in my life, it's been  
6 a little unusual for a CEO to sit on the audit  
7 committee. I know it's in the beginning stages of  
8 it --

9 MR. PETTWAY: I'm sorry. For the --

10 CHAIRMAN LAWTON: To separate the CEO from  
11 the audit committee. So as I understand, Caitlin's  
12 going to be the CEO, correct? But will also be on the  
13 audit committee.

14 MR. PETTWAY: All members of the board, it's  
15 planned --

16 CHAIRMAN LAWTON: Right --

17 MR. PETTWAY: -- initially --

18 CHAIRMAN LAWTON: -- I understood that, and I  
19 understand it's initially that that's going to happen,  
20 but is that something you may change down the road,  
21 where the CEO is not going to be on the audit  
22 committee?

23 MR. PETTWAY: It could be. I'll also note  
24 that the board meets in executive session after every  
25 meeting. If there was an issue, you know --

1 CHAIRMAN LAWTON: That's right.

2 MR. PETTWAY: -- we want to discuss among --

3 CHAIRMAN LAWTON: Okay.

4 MR. PETTWAY: -- just --

5 CHAIRMAN LAWTON: So that's how you're kind  
6 of trying to balance it, is that you have a separate  
7 board member.

8 MR. PETTWAY: Yes. And again, this is just  
9 the initial structure.

10 CHAIRMAN LAWTON: I understand.

11 MR. PETTWAY: Everybody wants to be involved.  
12 Everybody wants to make sure, you know, our collective  
13 backgrounds are there to support that -- the bank.

14 CHAIRMAN LAWTON: Right. And I could be  
15 wrong, and this is maybe a question for Albert, but I  
16 think might be a regulatory issue, having a CEO on  
17 a. . . and you guys may have looked at that.

18 MR. PETTWAY: I'll defer to executive  
19 management on that.

20 CHAIRMAN LAWTON: Okay. Thank you.

21 MR. RIFE: No questions.

22 MR. DIXSON: No questions.

23 MR. JENSON: No questions.

24 MR. FRANCE: No questions.

25 MS. SHARP: No questions, thank you.

1 MR. SORENSEN: No questions.

2 MR. DEMERS: Thank you, sir.

3 Mr. Dyekman, are you ready to call your next  
4 witness?

5 MR. DYEKMAN: I am. Thank you.

6 I call Philip Treick.

7 PHILIP TREICK,

8 having been first duly sworn, testified as follows:

9 EXAMINATION

10 BY MR. DYEKMAN:

11 Q Please state your name and your role at  
12 Avanti.

13 A Philip Treick. Independent director.

14 Q And what's your role as independent director?

15 A My role as an independent director is to  
16 assist in corporate governance and the implementation  
17 of the business plan. This includes the duty to  
18 enforce policies and procedures and ensuring they're  
19 executed to design and assist in directing the bank  
20 towards agreed-upon goals and capital structure.

21 Q Could you give the Board your background,  
22 please.

23 A I was born and raised in Wyoming. Spent most  
24 of my life in Rawlins. Graduated from high school  
25 there.

1                   But I began my career in -- at Raymond James  
2 Financial in Clearwater, Florida, in 1987. I was hired  
3 in the public finance department as an analyst and  
4 focused on municipal bonds underwritings and debt  
5 studies for clients which included Florida counties and  
6 cities.

7                   Q        You might want to slow down just a little  
8 bit.

9                   A        Oh, okay. After -- after nearly two years, I  
10 relocated to San Francisco and joined Transamerica  
11 Corporation. I started off, actually, in IT, but  
12 within a short period of time, ended up managing the  
13 equity trading desk for the corporation.

14                   Did that for a few years, then graduated to  
15 securities analyst. Followed a number of different  
16 industries, from financial services, technology, media  
17 entertainment, industrials. So led a small group, so  
18 it was more of a -- a generalist program. So it was  
19 actually a really good experience.

20                   In 1994, I was appointed a portfolio manager  
21 and began my portfolio management career managing  
22 mutual funds, separate accounts, managed part of the  
23 pension obligations of Transamerica Corporation.

24                   In 1999, Transamerica was sold to Aegon  
25 Corporation. I left at that point and went into

1 business with a fellow by the name of Robert Day, who  
2 was the founder of Trust Company of the West, an  
3 LA-based corporation.

4 I worked with him for approximately four  
5 years, managing mostly his private family office money.  
6 Additionally, some hedge products. And ultimately, the  
7 Cypress Fund, which was a hedge fund that he had  
8 established in the '60s.

9 In 2003, I moved my family back to Jackson  
10 and lived there for six years. The first two years  
11 were on noncompetes, though. Actually just enjoyed the  
12 adult Disneyland of Jackson.

13 But in 2005, I started an investment  
14 management firm that was specializing in tangible  
15 assets. So did that for four more years before moving  
16 back to the Bay area.

17 Launched a sister product to that fund with  
18 the Stephens Investment Management Company back in  
19 San Francisco, and that was a fund that was focused on,  
20 again, tangible assets but income streams attached to  
21 them. So kind of an income-focused product.

22 And in 2016, I came back to Wyoming. I was  
23 with my son, who was visiting the engineering  
24 department, looking to do a Ph.D. program. And when I  
25 was there, I was called to come over to the College of

1 Business. So went over there, and they asked me if I  
2 would come back in and instruct a class at the student  
3 portfolio management program there, which I ended up  
4 doing.

5 So after moving back to Laramie -- I thought  
6 it would be for a semester, but I've been there ever  
7 since, and they'll probably -- probably bury me there.  
8 The company I'd started, we merged with Tocqueville  
9 Asset Management out in New York.

10 And in 2019, I was approached by the  
11 University of Wyoming Foundation to become their chief  
12 investment officer and start an internal investment  
13 management team inside the Foundation, which I did, and  
14 at that point, left the partnership that I had formed  
15 and my interest to my partners. So that's basically  
16 the short/long story of me.

17 Q So how did you first meet Caitlin Long?

18 A So Caitlin and I met in the late '90s.  
19 Transamerica Corporation used to sponsor a senior golf  
20 tournament at the Silverado Country Club in Napa  
21 County. And my license plates on my vehicle said  
22 GO WYO. And apparently, she had walked by my car and  
23 saw that, and so she was asking around, Who's -- who's  
24 from Wyoming? Because we didn't really know -- I  
25 didn't realize Caitlin was from Wyoming.

1                   I knew that she was an analyst. I followed  
2 the insurance industry, although not life insurance.  
3 Property and casualty. But then we quickly found out  
4 that we were, you know, comrades.

5                   And so that's where we met and we've  
6 continued a great relationship over the years. We  
7 stayed in touch. We'd -- we'd almost always talked  
8 twice, three times a month, since I met her. And so  
9 it's been a very fruitful relationship and a lot of fun  
10 for me. And she was one of my original investors in  
11 all -- all the funds that I've done. She was always  
12 there. So. . .

13               Q       So could you describe the University of  
14 Wyoming's investment in Avanti.

15               A       So the foundation's interest, and as chief  
16 investment officer, you know, it was born out of  
17 necessity only because when you look out into the  
18 future, I mean, it's probably pretty clear to most  
19 people in this room, if not all, that digital assets  
20 are becoming a larger and larger part of the investment  
21 spectrum.

22                   And so from our point -- from our standpoint,  
23 the necessity is really from the standpoint of custody  
24 in the beginning. So we have donors that have given us  
25 bitcoin, Caitlin being one of them. And we've had

1 other donors give us other digital assets.

2 So trying to figure out a qualified custody  
3 solution was really paramount in the beginning, because  
4 it's over time, I think, that by virtue of the size and  
5 the growth and the innovation, these digital assets,  
6 especially bitcoins, will become an asset class that  
7 most long-term allocators of capital will need to have  
8 in their portfolio.

9 And one reason for that is that they're  
10 constantly searching for a diversified portfolio for  
11 those assets that are not correlated in traditional  
12 manners to the underlying assets you've already  
13 invested in. And so it's -- I think it's just a  
14 natural occurrence.

15 So I approached -- I approached my investment  
16 committee, the board that governs, you know, how we  
17 invest our assets. And I said, Look, I was speaking  
18 with Caitlin. And they know Caitlin. She was on the  
19 board a few years back. And she's looking to start one  
20 of these SPDI banks. And the -- the promise here is  
21 that we can be part of the qualified custody solution.  
22 We can also help the state. And we can help ourselves.

23 And so I wanted to find out if they would be  
24 amenable to making an investment, if it were -- if we  
25 could do that, and I first had to approach Caitlin,

1 obviously. And the chairman of the board, Frank  
2 Mendocino, agreed with me, that we should -- we should  
3 explore it.

4 So I called Caitlin, and I said, Would you  
5 accept the potential of an investment from the  
6 University of Wyoming Foundation, to which she agreed.  
7 So I then invited her to our spring board meeting,  
8 which was held in Houston in February, and had her  
9 present the idea.

10 So when she agreed to do that, we began our  
11 due diligence. My internal team and I and -- started,  
12 you know, calling people, including Commissioner  
13 Forkner and others, to try to figure out, okay, so what  
14 does this mean? What's a SPDI bank? What's it going  
15 to mean for our needs?

16 And what we determined was that it's kind of  
17 as an institutional investor, would fit our needs, that  
18 other entities could not really do at that point in  
19 time.

20 So Caitlin came out. She presented. It took  
21 about three hours, and then -- that was questions and  
22 answers, and then she left the room, and we debated  
23 another hour. And it was -- it was a good investment  
24 discussion, but there were differing opinions, but in  
25 the end, everyone agreed that it would be an interesting

1 and potentially great investment for the university,  
2 provided we could come to terms.

3                   And what we wanted to do was lead the angel  
4 round. And so I approached Caitlin, and I said, We  
5 would like to invest if we can agree to terms, and we'd  
6 like to lead the route. And ultimately, we did do so.

7                   Chairman Mendocino required that we hire  
8 legal counsel, which we did, John Leonard, who  
9 represented us in the negotiations. And -- and so we  
10 were, hopefully, instrumental in helping them make that  
11 angel round. And for that, I was appointed as a board  
12 member.

13               Q    Why did you agree to be on the board of  
14 Avanti?

15               A    You know, in my -- in my career, I've been  
16 exposed to a lot of really, really interesting people.  
17 I was very early on in the investment process with  
18 Amazon. I was early on in the investment process with  
19 Steve Jobs at Pixar. Early on with the investment  
20 process -- I mean, Microsoft became public in 1983, but  
21 I was -- still early in the '80s at Microsoft and being  
22 exposed to Bill Gates.

23                   And Caitlin is one of those people. Every  
24 time I speak with her, when I'm around her for any  
25 period of time, I learn something. So for me, it was a

1 conscious decision, that, yeah, I wanted to learn more.  
2 And so that -- that drove it. But in addition, the  
3 university was leading that. The angel round. We  
4 wanted board representation, and it was natural that it  
5 would be me.

6 Q So how is the board of Avanti functioning, in  
7 your eyes?

8 A It is -- so we meet frequently. We have  
9 relevant discussions. And as you guys know, the  
10 world's changing. Just since they started this  
11 process, there's been all kinds of change. And there's  
12 all kinds of uncertainty as it relates to new  
13 competitors, new forms of competition, new types of  
14 competition. And so there's lots of stuff to talk  
15 about.

16 And what I have found is that a  
17 well-functioning board is generally one that shares  
18 information transparently and quickly and doesn't try  
19 to hide behind denial of risk. And so I don't see that  
20 in -- in my judgment, dealing with the internal board  
21 members and the executive management team.

22 Q Given your prior experience in investment,  
23 how do you feel about the prospects of success for this  
24 team and building a successful banking business?

25 A I think the most important thing a new

1 business can do is be very judicious with their  
2 capital. And the allocation of capital is the single  
3 biggest, I think, component of success.

4 And so in the case of this company, they've  
5 been great stewards of the capital that they've raised  
6 in their seed and their angel rounds so far. And when  
7 I see that, that makes me feel a lot better, because I  
8 know that they'll have a longer runway. Because when  
9 things change, sometimes things take longer, and  
10 there's a lot of change.

11 And so -- so I think that their -- I think  
12 their prospects are actually quite good because they're  
13 pragmatic. And again, they're good -- so as far as I  
14 have seen, they're very good allocators of capital.

15 Q In your opinion, should Avanti be granted a  
16 bank charter in this state?

17 A Yes. I think -- I think Avanti is going to  
18 both advance the state of banking, and I think that  
19 they're -- that the financial products that they're  
20 developing and -- and marketing, I think, will be --  
21 will benefit their clients. And again, it'll benefit  
22 the state.

23 And to the extent that it draws more of that  
24 type of activity, I think it's going to benefit the  
25 state in a myriad of ways, not only the people that

1 will drive the capital but will draw on the jobs it  
2 will create. So I think that -- that, yes, they should  
3 because hopefully, they're successful.

4 MR. DYEKMAN: Thank you.

5 CHAIRMAN LAWTON: No questions. Thank you.

6 MR. RIFE: No questions.

7 MR. DIXSON: No questions here. Thanks.

8 MR. JENSON: No questions.

9 MR. FRANCE: None for me.

10 MS. SHARP: No questions. Thank you.

11 MR. SORENSEN: No questions.

12 MR. DEMERS: Thank you, sir.

13 Mr. Dyekman?

14 MR. DYEKMAN: Thank you very much.

15 The next witness is Katie Cox.

16 KATIE COX,

17 having been first duly sworn, testified as follows:

18 EXAMINATION

19 BY MR. DYEKMAN:

20 Q Please state your name and your relationship  
21 with Avanti.

22 A I'm Katie Cox, and I'm adviser to Avanti.

23 Q Could you give the Board a bit of your  
24 background, please.

25 A Sure. I spent 30 years with the Federal

1 Reserve system as a Federal regulator, a bank  
2 regulator. I recently retired in February as an  
3 official in the mergers and acquisitions section.

4 The first 10 years of my career at the  
5 Federal Reserve, I spent as a commissioned Federal bank  
6 examiner. I examined or participated in examinations  
7 of numerous types of banking industries that are  
8 regulated by the Federal Reserve. That included bank  
9 holding companies as large as CMC in Pittsburgh, Bank  
10 of America in Charlotte, as well as community banks in  
11 the Federal Reserve.

12 I also went to non-banking entities, but bank  
13 holding companies and examining those and foreign  
14 agencies operating in the US, as well as US operations  
15 oversees. So I think I might be one of the few people  
16 that's gone to almost every type of legal entity that  
17 the Federal Reserve system encompasses. I've worked  
18 for four Federal Reserve banks, including the Kansas  
19 City Reserve Bank, which, of course, encompasses  
20 Wyoming.

21 And then after spending 10 years on the road,  
22 I went to Washington, D.C., and spent the last 20 years  
23 working for the -- for the Governors of the Federal  
24 Reserve System in the mergers and acquisitions section.

25 I was one of the key Federal reserve

1       officials responsible for a payment system related to  
2       proposals, and that's what this is. And I'll give you  
3       an example of one of the proposals I've worked on that  
4       I think you can relate to that has a lot of  
5       similarities and issues or, you know, that -- the same  
6       things that Avanti is dealing with.

7               And maybe you all are familiar with Green  
8       Dot, the prepaid debit card. You can buy them in  
9       Walmart, CVS, 7-Eleven and Green Dot is probably the  
10       largest prepaid debit card in America. And they were  
11       sort of tired of dealing with two third-party banks  
12       that were holding their customers' deposits for their  
13       debit cards. And Green Dot wanted to buy some  
14       commercial bank.

15               And so they came to us, and I ended up being  
16       the -- the lead person on knowing the deal for my  
17       division. And this is a very novel proposal, a prepaid  
18       debit card company that's not really that regulated,  
19       and it wants to buy a bank, a regular commercial bank,  
20       and they wanted to buy one in Utah.

21               And it's novel. It's also a fee-based  
22       business, not lending -- not a lending business.  
23       Not -- not dependent on interest rates. It's a  
24       fee-based generated revenue business. But also, it's  
25       similar to Avanti in that its risks are operational

1 risks and technology risks. They're not interest rate  
2 risks or credit risks.

3 So this was a very novel proposal for the  
4 Federal Reserve. I got to be the lucky winner to  
5 present it to the Board of Governors for a vote. It  
6 was controversial. All the governors but one, despite  
7 what I thought was a wonderful presentation on my part,  
8 voted on the deal. And one of them very much  
9 vociferously disagreed with approving the deal, and she  
10 dissented and wrote a very long dissent on her public  
11 website.

12 So this is -- this is a similar type of  
13 proposal where, you know, with some similar risks. And  
14 so, just to let you know, I have that type of a  
15 background, working on those types of proposals.

16 I've worked on numerous de novo bank  
17 proposals. Also state membership proposals, where, you  
18 know, banks want to join the Federal Reserve. I've  
19 presented numerous policy recommendations and novel  
20 banking proposals for the Federal Reserve Governors  
21 during my tenure at the board. That includes  
22 presenting to all the chairs or chair -- or Governors  
23 who were going to become a chair, Greenspan, Bernanke,  
24 Yellen, and Powell.

25 And for a career Federal employee in

1 Washington, D.C., that's kind of the epitome of terror,  
2 you know, very -- very scary of an experience to do  
3 those types of presentations. But anyway, I have a lot  
4 of experience in that area, you know, working on novel  
5 proposals or proposals that have policy twists to them.

6 I'm also the primary contributor for several  
7 pieces of bank regulatory guidance during my tour with  
8 the Board in Washington.

9 Q So how did you -- or how do you view your  
10 role as an adviser to Avanti, then?

11 A Well, I believe my primary role is to provide  
12 advice to Avanti on its regulatory strategy for its  
13 proposals with the Federal Reserve. Also, provide  
14 advice on its Avit product and raise questions with a  
15 focus on identifying and mitigating potential risks to  
16 traditional payment systems.

17 And then I provide advice on strategic  
18 inquiries that Avanti has already received, both from  
19 banks and nonbanks, and those from entities from within  
20 and outside of the United States.

21 I provide capital -- or advice regarding the  
22 capitalization of Avanti from the perspective of a bank  
23 regulator. And that -- that includes advice that  
24 Avanti should not agree to grant preferences, typically  
25 requested by venture capital investors, such as

1 liquidation preferences, ride-along rights.

2 I'll just be honest with you. The Federal  
3 Reserve likes a capital structure that is as  
4 straightforward as possible. And so with looking  
5 through it with that lens, you know, it's a lot easier  
6 if you're dealing with a proposal to the Federal  
7 Reserve, that you have a proposal that has a simplified  
8 capital structure, as much as you can.

9 So I've provided advice on drafting of  
10 Avanti's critical policies affecting bank operations  
11 and also with regard to corporate governance. I also  
12 intend to provide advice and guidance as the internal  
13 controls and audit program is formalized.

14 I also want to make it clear that due to  
15 Federal ethics restrictions, I am not permitted to be  
16 in communications with the Federal Reserve for 12  
17 months following my departure, until it meets up on  
18 March 1st of this year -- of 2021. Avanti has not  
19 asked me to contact anyone at the Federal Reserve, and  
20 nor have I done so, regarding this proposal.

21 Q How did you get connected with Avanti in the  
22 first place?

23 A Well, in April this year, Caitlin Long and  
24 Britney Reddy contacted me, discussed the opportunity  
25 of being an adviser with Avanti. And Caitlin had

1       become aware through a network of colleagues who work  
2       in bank mergers and acquisitions that I had recently  
3       retired, and I was interested in serving on bank boards  
4       or as a bank adviser.

5                   So when they contacted me, we had a nice  
6       conversation. I said, Well, let me look at your  
7       business plan, your proposed management team, and your  
8       capitalization. So they gave me access to those  
9       documents so I could go through those.

10                  And while I was at the Board in Washington of  
11       working in mergers and acquisitions for 20 years, I  
12       really -- I reviewed hundreds of bank proposals. And  
13       you wouldn't believe some of the ones that get sent  
14       that, you know, you're like, What are these people  
15       thinking?

16                  And -- but many of them were novel or  
17       fee-based, and I could go through these proposals  
18       pretty quickly and determine whether it's a proposal  
19       that the Federal Reserve would deem feasible and would  
20       approve.

21                  So I went through their proposal, and I  
22       looked at the proposed management and their business  
23       team, and capitalization, and I was really impressed.  
24       And I thought -- well, you know, I looked at it and I  
25       thought, you know, this is something, in my -- in my

1       opinion, I think are both feasible and approvable. And  
2       it's also a fascinating new business and novel and, I  
3       think, challenging. So I agreed to become an adviser  
4       to Avanti.

5           Q       So now that you've had a chance to work with  
6       the management team and -- and had interactions with  
7       them many times, do you think that they are capable of  
8       building a successful SPDI bank?

9           A       Yes, I do. I think this is the team to  
10      provide a product solution to the US's cumbersome  
11      payment settlement system. While this is a private  
12      solution, it's also regulated -- it would be regulated  
13      by the State of Wyoming.

14               And I've had -- you know, and I looked at the  
15      proposed management team for this, for Avanti, and one  
16      of the things, always as a regulator, was I researched  
17      their track record. You know, so what, you're from a  
18      regulated entity. What's your track record with that  
19      entity?

20               Do you have funds? Do you have public  
21      enforcement action? These are red flags you need to  
22      look for. And so I did that. And that was part of my  
23      due diligence, and I didn't see any of these red flags.

24               And also, you know, when I was at the Federal  
25      Reserve because we did see these red flags. They're

1 speed bumps for your deal. It creates issues. You  
2 have to explain, you know, why there's enforcement  
3 action when you were in charge of this entity or why  
4 they were fined. And so you don't -- you know, we  
5 don't have any of that with this proposal.

6 This team has also been highly proactive and  
7 interactive. They're serious about identifying and  
8 mitigating the risks that this proposal presents.  
9 They're not pretending that this proposal doesn't  
10 present risks, and they're taking these risks head-on  
11 and figuring out ways to mitigate the risks. And I  
12 think they have the skill sets to identify the risks  
13 and -- and mitigate these risks.

14 There's something also unusual about this  
15 group, is that they're already having regular board  
16 meetings. In my experience, that is very unusual for a  
17 bank that's in formation or even of a seeding that's in  
18 formation that doesn't even have a charter yet, but  
19 they're already having formal bank minutes and --  
20 excuse me, board meetings, taking minutes, executive  
21 committee meetings. That's unusual.

22 And so they're putting in a strong corporate  
23 governance framework right off the bat, and that's  
24 great. So again, I think this management team is  
25 capable of building and operating a safe and sound

1 SPDI.

2 Q Given your experience with the Federal  
3 Reserve, do you have any thoughts about Avanti's  
4 getting a master account?

5 A Well, yes, I do. First of all, I've had  
6 firsthand in-person meetings with many of the current  
7 Governors at the Board. And I believe that -- I  
8 believe that the Federal Reserve -- it's only my  
9 personal opinion, but the Federal Reserve system  
10 welcomes private solutions to the US payment system's  
11 inefficiencies.

12 So you've got private solutions but it's also  
13 going to be a SPDI that's going to be a regulated  
14 entity, and I commend Wyoming for putting together a  
15 legal and regulatory framework for overseeing this type  
16 of SPDI.

17 And so I think once the Federal Reserve --  
18 and they -- I know they -- you know, I believe they're,  
19 you know, closely working -- or it's my understanding  
20 that they're closely working with Wyoming and getting  
21 an understanding of all the work that's been put in.

22 And so having that type of private solution  
23 that goes along with being also a regulated  
24 institution, I think that really enhances the chances  
25 that the Federal Reserve would support having Avanti

1 get a master account with -- with them.

2 MR. DYKEMAN: Thank you very much.

3 MS. COX: Sure.

4 MR. DEMERS: Are there any questions from the  
5 Board?

6 EXAMINATION BY THE BOARD

7 MR. RIFE: Thank you, Ms. Cox. I appreciate  
8 your testimony.

9 If you maybe just say what the -- the top one  
10 or two impediments are for this institution realizing  
11 its success, how would you classify them.

12 MS. COX: Well, I guess there's -- it's a  
13 couple -- there's several things they want to do. I  
14 think, you know, getting the master account would be a  
15 tremendous boost for this company. And I don't want to  
16 say it's -- it's going to be a -- I don't know -- I  
17 don't want to say difficult, but it'll probably be a  
18 little bit longer road with the Federal Reserve to get  
19 the Federal Reserve comfortable with granting a master  
20 account.

21 This will have to more than likely be  
22 considered in -- in Washington and be presented to at  
23 least a subset of the Governors there for them to  
24 consider.

25 And so from my perspective, that's what I

1 think is going to be a challenge, but I don't think  
2 it's an insurmountable challenge.

3 MR. DIXSON: One quick question, Ms. Cox.  
4 Thanks for your testimony.

5 My question is: Will you -- do you see your  
6 role continuing beyond the organizational phase into --  
7 assuming a charter is granted?

8 MS. COX: I would be glad to serve in any  
9 capacity of, you know, particularly as a Board member,  
10 if they so wish me to do so. I'd be -- I would be glad  
11 to do that.

12 MR. JENSON: No questions.

13 MR. FRANCE: No questions.

14 MS. SHARP: No questions.

15 MR. SORENSEN: No questions.

16 MR. DEMERS: Thank you.

17 Mr. Dyekman, do you have any additional  
18 questions for this witness?

19 MR. DYEKMAN: No, I don't. Thank you.

20 MR. DEMERS: Thank you, Ms. Cox.

21 Do you have any additional witnesses?

22 MR. DYEKMAN: For now, we'll -- we'll call  
23 that our last witness.

24 MR. DEMERS: I understand. You're not --  
25 you're not resting. I understand.

1 MR. DYEKMAN: Yes.

2 MR. DEMERS: Thank you.

3 MR. DYEKMAN: Thank you.

4 MR. DEMERS: At this time, the Division's  
5 asked for a ten-minute recess before they commence  
6 their case.

7 We'll be in recess. Thank you.

8 (Recess from 2:02 p.m. to 2:14 p.m.)

9 MR. DEMERS: You're going to call both of  
10 them as a witness?

11 MR. DYEKMAN: Yes. Neil Schloss is who I was  
12 going to ask a couple questions of first.

13 (Messrs. Schloss and Cullinan sworn.)

14 MR. DYEKMAN: All right. Very good. Thank  
15 you, gentlemen, for being here.

16 NEIL SCHLOSS,

17 having been first duly sworn, testified as follows:

18 EXAMINATION

19 BY MR. DYEKMAN:

20 Q Neil, could you give your name and your role  
21 with Avanti, please.

22 A Yes. Neil M. Schloss, adviser to Avanti.

23 Q Could you please give the Board a description  
24 of your background.

25 A Yeah, my pleasure. It's great to be here. I

1 wish I could be there in person, because I've never  
2 been to Wyoming, and look forward to the chance to --  
3 to come visit.

4 I spent my entire career at Ford. I spent 36  
5 years at Ford, predominantly all in finance or treasury  
6 roles. Last two jobs I had, beginning in 2007, was  
7 corporate treasurer, and then my last two years before  
8 I retired, I was CFO of Ford Mobility.

9 As part of that career and as part of my  
10 treasury background, which I spent about 25 years of  
11 the 36, on a number of different roles, including  
12 banking, cash management, trading, pension and  
13 liability management, and risk management and strategy,  
14 working my way up to the point where I got my dream job  
15 in 2007 when I became corporate treasurer.

16 I managed a team of about 300 folks globally.  
17 It was a dream job, but in 2007, for those of you who  
18 remember, it was the beginning of the financial crisis.  
19 It was the beginning of the auto crisis. And I think  
20 that the time of 2007 to 2009 was -- will go down for  
21 me, anyway, as both a career highlight but also a  
22 career lowlight, dealing with many of the things that  
23 the auto industry was dealing with on top of what was  
24 going on with the financial markets.

25 I think importantly, as treasurer -- I did it

1 for about 10 years -- I had a full responsibility for  
2 all of the functionalities within treasury, and that  
3 includes what Bob will talk about in a second with  
4 regards to the treasury IT world.

5 As treasurer, I was also engaged in much of  
6 the leadership, so part of the leadership team around  
7 the table, and it helped save Ford from what its two  
8 competitors in Detroit went through, filing for  
9 bankruptcy.

10 Importantly, I think, for this Board is as  
11 part of the role of treasurer, I also served on the  
12 Board and audit committee of Ford Motor Credit Company,  
13 which was or is about a \$150 billion financial services  
14 company, meant to finance dealers and our retail  
15 customers.

16 The last two years as treasurer, I was also  
17 chair of the audit committee. Also as treasurer, I was  
18 a frequent participant on the Ford Board and a  
19 permanent management participant in the Ford Motor  
20 Company audit committee and finance committee.

21 (Sound distortion) And I understand  
22 financial matters. I have a really good understanding  
23 of business strategy.

24 Toward the end of my career at Ford, I was  
25 asked to join the CEO of Mobility to help start a

1       mobility business, and this was really a start of -- a  
2       startup inside of Ford to help build what the future of  
3       auto 2.0 would be and really start building  
4       mobility-based businesses beyond the traditional, you  
5       know, design, manufacture, and sale and financing of  
6       cars and trucks around the world.

7               I did that job for about two and a half  
8       years, leading the -- the start of a finance  
9       organization, building its own financial reporting, its  
10      own internal controls, its own governance. We also  
11      bought four companies and started several internally as  
12      well.

13               I retired from Ford at the end of 2018, and  
14      since then, I've joined three different private company  
15      boards, the largest being the US holding company or the  
16      intermediate holding company for BNP Paribas, and so  
17      I'm frequently involved in -- in learning about the  
18      banking business from the other side. I dealt with  
19      the -- with the capital markets and strategy side  
20      frequently as treasurer. Now I'm getting a look at the  
21      other side as it relates to -- to banking.

22               In addition to BNP, I'm on two startup  
23      boards, both Israeli based. One is a cybersecurity  
24      company, and another is a venture capital fund.

25               With the BNP role, I'm getting indoctrinated

1       in -- I think the way I would describe is drinking from  
2       a fire hose on what bank regulatory environment is for  
3       a US bank.

4                   I think it's -- it's part of a learning  
5       experience for me, for sure, but I never really  
6       appreciated what was going on behind the scenes at  
7       banks from a standpoint of the regulatory environment,  
8       and with BNP, the internal holding company or  
9       intermediate holding company, obviously came about as a  
10      part of Dodd Frank.

11                  The amount of time and effort that the Board  
12       spends working with the management team to make sure  
13       that the government controls are in process, are in  
14       place and continue to be managed.

15                  In addition to the board role, I'm also on  
16       the IHC audit committee and both the IHC and US risk  
17       committees. So that's been it. It's an eye-opening  
18       experience, it's a learning experience, and I look  
19       forward to continuing in that role.

20                  And lastly, since retirement, I've created my  
21       own advisory firm, basically a single proprietor, LLC,  
22       to do -- to do advisory work, very similar to what I'm  
23       doing with Avanti.

24                  And with that, I (sound distortion)

25      Q       So how did you get connected with Avanti?

1           A       I think it goes back a few years, anyway. I  
2       think I've known Caitlin now for almost a decade. We  
3       met originally when she was part of the Morgan Stanley  
4       pension advisory group. We were going through some  
5       pretty significant delistings as part of the Ford  
6       defined benefit pension plans which, like most plans in  
7       the early part of the last decade were -- were  
8       underfunded, heavily exposed to -- to equity returns,  
9       and the liabilities were heavily exposed to discount  
10      rates.

11               So we had the Morgan Stanley team come in. I  
12      had never met Caitlin before that and was extremely  
13      impressed. And I would say this even if she wasn't in  
14      the room, but she was one of the smartest bankers I  
15      think I've ever dealt with in my 25 years in treasury.

16               Subsequent to that, we reconnected at a peer  
17      group -- I think she mentioned this earlier as part of  
18      her testimony -- back in 2014. She came to present to  
19      the Cap Cap, which is a top 20 cap-based companies in  
20      my peer group as treasurer. She came and presented a  
21      presentation on blockchain and bitcoin.

22               And I think for me, that was my first, sort  
23      of, indoctrination to the subject, and it was really a  
24      wow moment from the standpoint of what blockchain and  
25      bitcoin could actually do to improve many of the

1       inefficiencies that existed within my treasury world.

2                   I was so excited about that, I asked her if  
3       she would come back and come present to my team. And  
4       so we had a session of what we called Lunch and Learn,  
5       which the majority of my US team was present, to hear  
6       again the subject, and for them, the first time hearing  
7       it as well.

8                   And from that, many of the discussions  
9       continued along the line on many -- or several  
10      financial transactions, ABS sort of being sort of the  
11      most important one for us, given the asset-based  
12      financing and the huge amount of inefficiencies that  
13      exist in any kind of title-related transactions.

14                  And so from there, we stayed in contact and  
15      looking forward to -- and continue to find out what  
16      each of us was doing, and connected earlier this year.  
17      She told me about Avanti and told me about the things  
18      she was doing with regards to corporate treasurers, and  
19      asked me to join the ride.

20                  Q       And what things --

21                  MR. DEMERS: Mr. Dyekman, you might want to  
22      kill your mic between questions.

23                  MR. DYEKMAN: Okay.

24                  Q       (By Mr. Dyekman) What things caused you to  
25      decide to become a member of the advisory board?

1           A     I think, by and large, it's what the company  
2     is trying to do. I think they've got a unique -- a  
3     potentially unique strategy to really address some of  
4     the inefficiencies in the payment world. And from a  
5     corporate treasurer perspective, the amount of  
6     inefficiencies that exist between one party paying  
7     another could take several days.

8                   It's -- as a treasurer, when you send large  
9     amounts of money out, you want to get large amounts of  
10    money back or at least acknowledgment of receipt, if  
11    it's a payment due. And many -- as many of you know,  
12    the number of parties that touch that transaction in  
13    the process is -- and everybody's takes a little bit of  
14    a fee, especially if you're going across borders.

15                  And so I think what Avanti is trying to do,  
16    and what interested me, is trying to find those --  
17    those solutions, and working with a company and my old  
18    peers from a standpoint of treasurers around the US, to  
19    hopefully try to expand the strategy and try to break  
20    into this, which is a process that's presently -- the  
21    majority controlled by the -- the major banks.

22           Q     What do you think the barriers are to fixing  
23    the problems in the corporate payment system?

24           A     I think it really relates to what I just said  
25    from the standpoint that the large banks are the ones

1 that are facilitating these payments for corporations  
2 today. They're built into the -- the ecosystems that,  
3 you know, treasury systems and payment systems are in.

4                   And so it's really going to be getting one or  
5 two clients that have some clout to try this out and  
6 prove it out, and prove that the -- both the cost  
7 reduction that comes with it and the risk reduction  
8 that comes with it, as it relates to just overnight  
9 exposures, can be proven out and make it efficient.

10                  And then jointly, with the individual  
11 clients, start showing the stair steps, so you start,  
12 you know, sort of building as you go. Get a couple of  
13 them on board, and then I think it'll go off from  
14 there.

15                  Q        So is that how you think Avanti can compete  
16 with the large bank providers?

17                  A        Yeah, I'm not sure if "compete" is the right  
18 word. I think there's plenty of -- there's plenty of  
19 business to go around. There are going to be a number  
20 of parties that -- that participate in this that are  
21 efficient in this or can be efficient in this.

22                  But it really is going to be getting a couple  
23 of pretty good-sized clients that can put -- and put  
24 some, you know, effort into selling it to others.  
25 Selling it is not the same way, but pushing it toward

1 others. It's getting it integrated into some of the  
2 treasury management systems and ecosystems, and Bob can  
3 talk more effectively on that.

4 It's -- it's really going to be a step. It's  
5 going to be getting one, two, and then three and four,  
6 and working your way through, and they'll get the  
7 attention of the bigger guys, and I think they all want  
8 to control it. And they will try to control it, but  
9 they're going to have trouble when you start getting  
10 the efficiencies that I think this could bring.

11 MR. DYEKMAN: Thank you very much. You  
12 mentioned Bob.

13 ROBERT CULLINAN,  
14 having been first duly sworn, testified as follows:

15 EXAMINATION

16 BY MR. DYEKMAN:

17 Q So Bob, could you please state your name and  
18 your relationship with Avanti.

19 MR. SCHLOSS: You're on mute.

20 A There we go. That's better.

21 Good afternoon. My name is Robert Cullinan.  
22 My relationship with Avanti is an adviser.

23 Q (By Mr. Dyekman) And could you please  
24 describe your professional background.

25 A Certainly. I have about 49 years of

1 experience in information technology business, both in  
2 the auto loan bail business and the captive finance  
3 business.

4 I've had executive leadership roles as a  
5 director of global treasury, finance and accounting  
6 systems, and management information systems. I've had  
7 senior-level international positions located in the  
8 United Kingdom, where I was responsible for  
9 applications development and captive finance  
10 organization. I had a team in Germany and as well in  
11 Spain. I've taken short-term assignments in Brazil, in  
12 India, Sweden, and in the United Kingdom as well.

13 Also in my career, I've had a strategic role  
14 in automotive world-wide systems planning, where I did  
15 work by developing systems strategy for emerging  
16 markets and then packaged organizations which. . .

17 (Audio failure.)

18 SPEAKER: Oh, no.

19 Q (By Mr. Dyekman) Can you still hear me, Bob?  
20 We've lost your audio.

21 MR. DYEKMAN: Well, I'll make what we call a  
22 proffer of evidence, then, in court.

23 What he was going to talk about is the  
24 interface between an IT product like this and industry  
25 and the big opportunities that he sees in the

1 industrial sector as far as this payment system and how  
2 he's going to assist in trying to get people in similar  
3 positions to his own to take a look at the Avanti  
4 products.

5 MR. DEMERS: Is the Board satisfied with  
6 that?

7 Thank you.

8 MR. DYEKMAN: Don't ask me any questions.

9 CHAIRMAN LAWTON: And I apologize.

10 MR. DYEKMAN: That's all right.

11 With that, we will rest.

12 MR. DEMERS: Subject to something you may  
13 want to present in the event that there's an executive  
14 session later?

15 MR. DYEKMAN: Absolutely.

16 MR. DEMERS: Thank you.

17 MR. DYEKMAN: Yes. Thank you.

18 MR. DEMERS: Mr. Kenney, are you ready to  
19 proceed?

20 MR. KENNEY: Yes.

21 MR. DEMERS: Thank you.

22 ALBERT FORKNER,

23 having been first duly sworn, testified as follows:

24 /

25 EXAMINATION

1 BY MR. KENNEY:

2 Q Will you please state your name and position  
3 for the record.

4 A Albert Forkner. Banking Commissioner for the  
5 Wyoming Division of Banking.

6 Q And would you please describe your role, in  
7 particular with regards to this matter.

8 A Well, as the Commissioner, I lead the  
9 Division of Banking, which is charged with the  
10 chartering and supervision of financial institutions  
11 that are subject to Wyoming law.

12 And regarding this specific proceeding,  
13 Mr. Chairman and members of the Board, you were  
14 provided a copy of our report of investigation, which  
15 is labeled Exhibit A. That report summarizes our  
16 investigation and subsequent findings and  
17 recommendations.

18 Our purpose here today is to provide a  
19 summary -- a few summary comments and then answer any  
20 questions you have regarding the charter investigation  
21 conducted by my office.

22 Wyoming Statute 13-12-114 states in part that  
23 the Commissioner shall make a careful investigation and  
24 examination of the following factors: the character,  
25 reputation, financial standing, and ability of the

1       incorporators, which in this case are the proposed  
2       directors. The character, financial responsibility,  
3       banking or other financial experience, and business  
4       qualifications of those proposed as officers and  
5       directors. And the application for a charter,  
6       including the adequacy and plausibility of the business  
7       plan of the special purpose depository institution and  
8       whether the institution has offered a complete proposal  
9       for compliance with the provisions of the chapter, that  
10      being Chapter 12 of Title 13.

11                   The investigation process for Avanti  
12      Financial started informally early this year. This  
13      included discussions with Ms. Long about her vision for  
14      Avanti and a high-level overview of the proposed  
15      business activity.

16                   In previous charter hearings, I've noted that  
17      the most important factor for a financial institution  
18      is its management team. This includes day-to-day  
19      operating management and the board of directors.

20                   My early discussions with Ms. Long stressed  
21      the importance of building a strong management team  
22      with requisite experience needed for the activities the  
23      SPDI would be engaging in. In assessing compliance  
24      with statutory factors 1 and 2, previously mentioned,  
25      we verified, and as you have seen and heard today, that

1 Avanti has built a strong management team, including a  
2 slate of independent expert advisers.

3 Another important factor is maintaining the  
4 proper capital position. Bank capital performs very  
5 important functions. It absorbs losses, promotes  
6 public confidence, helps restrict excessive growth, and  
7 provides protection to depositors.

8 The amount of capital that is being proposed  
9 appears to be sufficient for the overall risk profile  
10 that Avanti will have during the three-year de novo  
11 period.

12 As you're aware, digital assets pose unique  
13 challenges and risks regarding BSA, AML, KYC, and OFAC  
14 sanctions compliance. We investigated Avanti's  
15 compliance posture and risk management policies  
16 regarding BSA/AML compliance.

17 Additionally, the proposed Avit product  
18 requires Avanti to have a robust BSA/AML program as a  
19 network administrator, and we are ensuring that  
20 compliance is addressed appropriately there as well.

21 It probably goes without saying, but a sound  
22 IT cybersecurity, information security infrastructure  
23 is vital and expected in all areas of financial  
24 services. Digital asset custody elevates those  
25 expectations even more.

1                   Private key management on behalf of a third  
2 party requires the highest level of security and  
3 controls. And Avanti's proposed Avit requires  
4 additional controls around the issuance and burning of  
5 tokens. So we have had a number of discussions about  
6 that.

7                   As our report of investigation indicates,  
8 I've determined that Avanti Financial Group has  
9 adequately and complied with the statutory factors that  
10 my office is charged with investigating.

11                  So with that, Mr. Chairman, I'll stand for  
12 any questions from the Board.

13                  EXAMINATION BY THE BOARD

14                  CHAIRMAN LAWTON: Not from me.

15                  MR. RIFE: No questions.

16                  MR. FRANCE: Mr. Forkner, I guess my question  
17 to you has been, you've heard the testimony from some  
18 of these other folks today regarding the potential  
19 lending function.

20                  Do you have a level of comfort through your  
21 office that that would be in compliance with the  
22 legislative direction that was provided?

23                  MR. FORKNER: Yeah, absolutely. So again,  
24 this is the context you think about securities lending.  
25 In essence, it's that activity, other than it's a

1 digital asset. So that would be the closest one.

2 So you know, as I've listened today, yeah,  
3 the term "lending" -- and yes, there is an asset being  
4 lent out for -- for a purpose, and in the securities  
5 lending world, it's different than the traditional --  
6 whether it's consumer or commercial lending that is  
7 done by traditional bank activities.

8 So in this case, the -- a client of Avanti  
9 directs them to effectuate some sort of transaction on  
10 their behalf as, in essence, a directed trustee. So  
11 that is a non-balance sheet lending activity, and  
12 therefore, is -- there is no fiat deposits being lent  
13 against, and so therefore, there is not a -- that loan  
14 is not an asset of Avanti.

15 And so it is in compliance with the statute.  
16 And in fact, that's an activity that is authorized as  
17 additional activities that fee sharers can engage in.

18 MR. FRANCE: On another note, I posed the  
19 question earlier today regarding CFPB potential  
20 red-lining when you're kind of identifying a high net  
21 worth audience.

22 Do you see or anticipate any scrutiny that  
23 that might come forth due to the potential target  
24 audience that this company has identified.

25 MR. FORKNER: You know what, we're still

1 looking into that. I don't think it's applicable in  
2 the sense of the -- the activities are allowed for --  
3 for consumers under deposit, as the law is written, is  
4 solely as it relates to custodial activities.

5 So if you remember when the law was first on  
6 the books, it was corporate-focused only, commercial  
7 client, and that was -- was structured to be.

8 So if you're a company in business, it didn't  
9 matter what type, you could have an account with Avanti  
10 and all the services that were allowed under the law.

11 Then last year -- or this last session  
12 earlier this year, the amendment was to allow for  
13 consumer activities, but if any of you followed that  
14 legislative process, you know that I did want it to  
15 just be open door to an alternative, non-FDIC insured  
16 bank. I mean, that just was never the whole intention  
17 of this institution.

18 So we worked to make sure that what the  
19 demand was, was those individuals who wanted to work  
20 with an exchange that may be under an SPDI charter, an  
21 affiliate maybe did, and as heard from the Kraken  
22 hearing a few months ago, that was sort of the target.

23 So those activities are still limited to, in  
24 essence, on and off ramp to custodial activities.  
25 Individuals cannot, the way the law is written, have

1 full banking services.

2 So that being said, because it's limited, and  
3 we'll continue to research it, I don't think that would  
4 be subject to potential red-lining. But obviously, as  
5 a regulator, and we're -- consumer compliance is an  
6 issue that, you know, banks have to follow. We would  
7 make sure, if it does -- in whatever fashion it does  
8 apply, then we would -- the bank is expected to comply  
9 with any and all applicable state and Federal  
10 regulations.

11 MR. KENNEY: I have no further questions.

12 MR. DEMERS: Mr. Dyekman, did you wish to  
13 make inquiry of Mr. Forkner? Thank you.

14 MR. DYEKMAN: No, thank you.

15 MR. DEMERS: Then that concludes the  
16 Division's case?

17 MR. KENNEY: Yes, that does conclude the  
18 Division's case.

19 MR. DEMERS: Thank you.

20 CHAIRMAN LAWTON: So now we will go into  
21 executive session.

22 MR. DEMERS: You probably want a motion.

23 CHAIRMAN LAWTON: Oh, we need a motion for  
24 that?

25 I'll entertain a motion to go into executive

1 session.

2 MR. FRANCE: Mr. Chairman, I'll move that we  
3 go into executive session.

4 MR. JENSON: I'll second.

5 CHAIRMAN LAWTON: All in favor, signify by  
6 saying aye.

7 (Ayes expressed.)

8 CHAIRMAN LAWTON: Opposed?

9 MR. DETERS: I -- go ahead. Sorry. I  
10 apologize.

11 CHAIRMAN LAWTON: That's all right. I'm  
12 done.

13 MR. DEMERS: I just want to state at this  
14 point in time, the executive session is being convened  
15 according to the Department of Bank Division's Rules,  
16 Chapter 9, Section 3(c), being allowed for  
17 confidentiality of nonpublic information. And at this  
18 point in time, the Board has determined that they want  
19 to consider such information.

20 So in terms of preparing for the executive  
21 session, Mr. Dyekman, I'd ask your assistance, please,  
22 in identifying those individuals who Avanti is okay  
23 with having present during the nonpublic session.

24 MR. DYEKMAN: The executive team. If we  
25 could just have the people that were on the original

1 stipulated witness list. That would be it.

2 MR. DEMERS: So we'll stand in recess and,  
3 after five minutes, give everybody time to clear the  
4 room and have those who need to be here. Thank you.

5 (Recess at 2:41 p.m.)

6 (Executive session transcribed separately.)

7 (Open proceedings resumed at 3:18 p.m.)

8 MR. DEMERS: Thank you. At this time, we'll  
9 go back on the record.

10 At this point in the proceedings, we would  
11 give indication for members of the public to make oral  
12 comment. If you would care to do so.

13 There being no indication that anybody  
14 decides to make oral comment, Mr. Dyekman, do you  
15 desire to present the closing statement?

16 MR. DYEKMAN: I do. Thank you. And I'll  
17 keep this short.

18 Mr. Chairman and members of the Board, I  
19 appreciate your attention throughout this long hearing.  
20 But I hope you found the witnesses today and their  
21 testimony to be both interesting and informational.

22 The Chairman mentioned at the beginning of  
23 the hearing the seven criteria that you have to decide  
24 have been met in order to grant a charter, and I would  
25 take a moment to say why I think they've all been met,

1 aside from the fact that the Banking Division has  
2 already expressed its opinions that all seven have been  
3 met.

4 The first one is that the character,  
5 reputation, financial standing, and ability of the  
6 incorporators -- which in this case is the management  
7 team -- is sufficient to afford reasonable promise of  
8 successful operation.

9 As you've seen today, Avanti has a team of  
10 highly capable people with significant relevant  
11 experience, and they have the requisite financial  
12 standing to make this work. They're all recognized  
13 leaders of proven work histories of accomplishments,  
14 and they're good people.

15 Question number 2 is pretty much the same,  
16 except it asks about officers and directors. And it's  
17 been noted here that the fact that there are even  
18 directors yet is unusual and a positive thing, and  
19 that's definitely true with this team.

20 So not only do the executives meet the  
21 requirements of character and financial responsibility  
22 and experience, but so do the directors. All the  
23 directors have had governance experience. The  
24 independent directors are who I'm referring to. And  
25 they've had that at a high level in the relevant

1 industry.

2 You would be hard-pressed to find a better  
3 initial board of independent directors than they have  
4 here. And they're already part of the team. That's  
5 important, too, because they've added a lot to the  
6 process.

7 The third criteria is the plausibility and  
8 adequacy of the business plan. And you've seen the  
9 detail that these people have gone through to create  
10 their business plan, to document it, and to explain it  
11 to you. You've seen their fiscally conservative  
12 approach that's been referred to more than once. And  
13 you know that they have -- that there's strong  
14 experience and that they've identified the potential  
15 problems and are already hard at work to solve those  
16 problems.

17 The fact that they gave their projections on  
18 a conservative basis and that they projected both -- or  
19 all three, bull, bear, and the middle scenario shows  
20 that they're really considering all the possibilities,  
21 and I think that's impressive and important and  
22 definitely demonstrates that they have a plausible  
23 plan.

24 You also know this -- or just discussed their  
25 financial projections and their capital raising. It

1 sounds to me like people are beating down the door to  
2 be part of this entity, and I think they will not have  
3 that much difficulty raising the capital they need to  
4 take on.

5 Compliance with the capital and service  
6 requirements. You heard the Commissioner's testimony  
7 about that. He sees the capital as adequate. The  
8 thing that's important is that this group is ready to  
9 raise the capital, and it will be in place before they  
10 open the doors, and you should be comforted by that.

11 Number 5 is the special purpose depository  
12 institutions being turned down for no other purpose  
13 than legitimate objectives, authorized by law. The  
14 discussion we just had about the trust powers was an  
15 important one. It shows definitely in favor of Avanti  
16 and its product and its model, and their very laudable  
17 objective, to meet proven needs in the industry and in  
18 the payment system, so consistent with the legislative  
19 enactment to encourage this sort of innovative  
20 financial services firm.

21 The name of the proposed special depository  
22 institution, it doesn't resemble anybody else's name.  
23 That's clearly true, but just to make sure of that, we  
24 protected the trade name for Avanti Bank and Trust when  
25 we incorporated earlier this year with the Secretary of

1 State. So under the special statute, going with that,  
2 assuming the charter is granted, that name can be  
3 properly filed and used by this group or the  
4 organization.

5 And finally, whether the applicant has  
6 complied with all the applicable provisions of state  
7 law. I don't think there's been any testimony here  
8 that we -- any question about that. And if there's  
9 been anything that was even -- where a question could  
10 be raised, it was clear that Avanti is committed to  
11 compliance with all laws, State, Federal, et cetera,  
12 that become applicable to them.

13 So with all that in mind, we respectfully  
14 request that this Board grant the charter application  
15 for Avanti Financial Group as a special purpose  
16 depository institution in Wyoming.

17 Thank you.

18 MR. DEMERS: Mr. Chairman, I'll turn it back  
19 over to you.

20 CHAIRMAN LAWTON: I would concur, what an  
21 incredibly informative, professional, and obviously a  
22 very bright bunch of individuals. And thank you for  
23 the little bit of effort that you put into this  
24 process.

25 Next, just to remind you that once a

1 transcript of this meeting is completed, it will be  
2 sent to the Board and applicant. Then the Board will  
3 schedule a meeting to vote on the application.

4 And anybody have any other comments or  
5 questions?

6 Again, thank you, and I will entertain a  
7 motion to adjourn.

8 MR. RIFE: So moved.

9 MR. DIXSON: Second.

10 CHAIRMAN LAWTON: All those in favor, signify  
11 by saying aye.

12 (Ayes expressed.)

13 Opposed?

14 (Hearing adjourned at 3:26 p.m.)

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1 REPORTER CERTIFICATE

2 I, JASON T. MEADORS, Registered Professional  
3 Reporter and Certified Realtime Reporter, Certified  
4 Realtime Captioner, and Notary Public, appointed to  
5 take the hearing before the State Banking Board, State  
6 of Wyoming, Department of Audit, Division of Banking,  
7 certify that the proceedings were taken by me at  
8 Herschler Auditorium, State Capitol Building, Cheyenne,  
9 Wyoming, on October 6, 2020.

10 I certify that the foregoing proceedings were  
11 reduced to typewritten form by computer-aided  
12 transcription consisting of 224 pages herein; that the  
13 foregoing is an accurate transcript of the proceedings,  
14 based upon my ability to hear and understand same.

15 I certify that I am not related to, employed  
16 by, of counsel to any party or attorney herein, nor  
17 interested in the outcome of this matter.

18 Attested to by me this 20th of October, 2020.  
19

---

20 Jason T. Meadors, RPR, CRR, CRC  
21 Meadors Court Reporting  
22 800.482.1506  
23 800.482.1230 fax  
24 meadors@meadorsreporting.com

25 My commission expires January 26,  
26 2021

27 Re: State Bank Board hearing re Avanti Financial Group  
28 Reporter: JM  
29 Proofer: SLM

30

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